
March 2008

MILITARY BASE REALIGNMENTS AND CLOSURES

Higher Costs and
Lower Savings
Projected for
Implementing Two
Key Supply-Related
BRAC
Recommendations

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Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE MAR 2008		2. REPORT TYPE		3. DATES COVERED 00-00-2008 to 00-00-2008	
4. TITLE AND SUBTITLE Military Base Realignments and Closures. Higher Costs and Lower Savings Projected for Implementing Two Key Supply-Related BRAC Recommendations				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. General Accountability Office, 441 G Street NW, Washington, DC, 20548				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 71	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



Highlights of [GAO-08-315](#), a report to congressional committees

Why GAO Did This Study

The 2005 Base Closure and Realignment Commission estimated that two supply-related recommendations now being implemented by the Defense Logistics Agency (DLA) would save the Department of Defense (DOD) about \$4.8 billion over 20 years—about 13 percent of the 2005 base realignment and closure (BRAC) round's estimated long-term savings. These recommendations focus on business process reengineering by reconfiguring DLA's wholesale supply, storage, and distribution network and transferring procurement responsibility for depot-level repairables from the military services to DLA. This report is one in a series of reports on BRAC conducted under the Comptroller General's authority. It examines (1) the extent to which DLA's cost and savings estimates to implement these recommendations differ from those of the BRAC Commission and (2) DLA's progress and challenges in implementing the recommendations. GAO analyzed estimated cost and savings data and visited several of the military services' depots in its review.

What GAO Recommends

GAO recommends that DOD take actions to improve accountability and accuracy of BRAC costs and savings and promote successful implementation of these BRAC recommendations. DOD concurred with two recommendations, but disagreed with a third to exclude from DLA's business plans all expected savings that are not the direct result of BRAC actions.

To view the full product, including the scope and methodology, click on [GAO-08-315](#). For more information, contact Brian J. Lepore at (202) 512-4523 or leporeb@gao.gov.

MILITARY BASE REALIGNMENTS AND CLOSURES

Higher Costs and Lower Savings Projected for Implementing Two Key Supply-Related BRAC Recommendations

What GAO Found

Since the BRAC Commission issued its cost and savings estimates in 2005, DOD will spend more, save less, and take longer than expected to recoup up-front costs to implement two recommendations intended to improve DOD's logistics systems. Over the 2006–2011 BRAC time frame to implement these recommendations, GAO's analysis of DLA's data indicates that estimated net savings will be reduced by more than \$1.8 billion compared to the BRAC Commission's estimate, with a net cost of about \$222 million to DOD, because of increased estimated costs, decreased savings, and DLA's inclusion in the business plans of almost \$243 million in expected savings that GAO believes should not be counted as BRAC savings. The \$243 million in savings were to be achieved from inventory reduction initiatives that were not directly the result of BRAC actions and would have occurred regardless of BRAC. GAO's analysis further shows that the projected net annual recurring savings after 2011 have been reduced from nearly \$360 million to almost \$167 million, and that the savings over 20 years are expected to be \$1.4 billion rather than \$4.8 billion as estimated by the Commission. While some variances are to be expected, the magnitude of these variances is large and resulted from several factors, such as the use of inaccurate or outdated data, misinterpretation of terms, and changes in operational requirements that occurred during the decision-making process for formulating the recommendations. Because expected savings for the longer term are still large but subject to considerable variability, until net savings are tracked over time, decision makers will lack complete information to assess the financial performance of these recommendations. Although DLA has partially completed methodologies to accomplish this, they have yet to be implemented.

While DLA has focused primarily on planning to date, it has identified several challenges as implementation proceeds that, if not properly addressed, may adversely impact the services' depot-level operations and impair readiness. One challenge raised by the services involves DLA's ability to continue the timely provision of supplies to industrial customers as it assumes management of supply operations. If repair parts are not available when needed, the services are concerned that mission readiness would be degraded. Another challenge concerns the identification of differences among the services' information technology systems and development and funding of solutions to bridge DLA's system with the services' systems. Resolving human capital issues is an additional challenge. Further, maintaining continuity of funding to match planned implementation milestones is a challenge that, if not addressed, could further delay implementation of planned BRAC actions. DLA has taken several actions to address these challenges, such as working closely with the services to resolve issues, but it is too soon to determine how effective these actions will be. Because of potential disruptions to the services' industrial operations, collaboration and monitoring of the execution of BRAC actions as implementation proceeds are essential to mitigate potential adverse effects to the services and readiness.

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Abbreviations

BRAC	base realignment and closure
DLA	Defense Logistics Agency
DLR	depot-level reparable
DOD	Department of Defense
SS&D	supply, storage, and distribution

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United States Government Accountability Office
Washington, DC 20548

March 5, 2008

Congressional Committees

In 1997, we identified the Department of Defense's (DOD) management of its support infrastructure as a high-risk area because infrastructure costs have affected the department's ability to devote funds to other more critical programs and needs. As part of its efforts to reduce excess infrastructure and costs, DOD has undergone four rounds of base realignment and closures (BRAC) since 1988 and is currently in the process of implementing its fifth round—the 2005 BRAC round. This latest round is the biggest, most complex, and costliest BRAC round ever, with up-front costs to implement the recommendations now expected to exceed \$31 billion—an unprecedented amount, given that DOD has spent about \$24 billion to date to implement the four previous BRAC rounds combined. While DOD expects this investment to provide an opportunity for savings over the long term, DOD also viewed this round as a unique opportunity to support defense transformation by reshaping its infrastructure to provide improved support of its defense strategy. Consequently, several of the recommendations from the 2005 round focused on complex business process reengineering efforts, which is historically atypical for a BRAC round.¹

Two business process reengineering recommendations from the 2005 BRAC round are expected to have a major impact on the Defense Logistics Agency (DLA) and the military services. One recommendation, concerning reconfiguration of DLA's supply, storage, and distribution operations (SS&D), is targeted primarily at reconfiguring DLA's distribution depot network to save money and enhance the effectiveness of logistics support to operational forces. The complete text of this recommendation is reprinted in appendix I. The second recommendation, primarily concerning procurement of depot-level reparable (DLR), is targeted at

¹Business process engineering can be generally defined as an approach for redesigning the way work is done to better support an organization's mission and reduce costs. In this context, the BRAC recommendations discussed in this report are intended to transform existing distribution and procurement processes to more efficiently support the warfighter.

moving the management of essentially all remaining consumable items² and the procurement of depot-level reparable and related functions from the military services to DLA. The complete text of this recommendation is reprinted in appendix II. These two recommendations are among the largest in terms of savings, as projected by the BRAC Commission, for the 182 recommendations for the 2005 BRAC round. When combined, the BRAC Commission estimated that these two recommendations would save about \$360 million annually after the 6-year implementation period ending in fiscal year 2011, and about \$4.8 billion over the 20-year period ending in 2025.³

In September 2005, DLA was designated as the business manager for implementing these two recommendations within the department, and thus is responsible for developing business plans and coordinating implementation efforts with each of the military services. The business plans are intended to provide, among other things, details on actions and time frames, along with estimated costs and savings associated with implementing the recommendations. At the time of our review, a business plan for the SS&D recommendation had not yet been approved by the Office of the Secretary of Defense, with the latest draft submitted for approval in September 2007. The business plan for the DLR recommendation was approved in October 2006, and an updated plan was resubmitted in September 2007 and is awaiting approval. As the business manager, DLA is required to update these business plans semiannually and submit them to the Office of the Secretary of Defense for review.

In our July 2005 report on the 2005 BRAC round decision-making process and DOD's proposed recommendations, we stated that there was uncertainty regarding the magnitude of savings likely to be realized in some aspects of these DLA-managed BRAC recommendations, given assumptions regarding expected efficiency gains from business process

²DOD began the transition of management of consumable items from the services to DLA in the early 1990s. Under this BRAC 2005 recommendation, the services and DLA are to complete the transfer of all remaining eligible consumable items to DLA. Consumable items are either not repairable or not economically repairable.

³These particular figures are presented in fiscal year 2005 constant dollars (i.e., excludes projected inflation) as reported by the BRAC Commission. DLA subsequently converted the Commission's estimates to then-year dollars in its business plans and also expressed its estimates in then-year dollars (i.e., includes projected inflation). The implementation period extends nearly 6 years from when the BRAC recommendations became effective in November 2005 to September 15, 2011.

reengineering efforts that had not been validated.⁴ We attributed the uncertainty to estimates that were based on historical documentation and assumptions that were subject to only limited testing and had not been validated. We reported that this could lead to a false sense of savings and lead to premature reductions in affected budgets in advance of actual savings being fully realized, as has sometimes occurred in past efforts to achieve savings through business process reengineering efforts.

This review is one in a series of reviews that we have undertaken on the implementation of BRAC 2005 round actions. Because of the magnitude of the savings expected from implementing these DLA-managed recommendations and broad congressional interest in BRAC, we prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative to determine (1) the extent to which cost and savings estimates in DLA's plans to implement these two recommendations differ from those of the BRAC Commission, and (2) DLA's progress and the challenges it faces in implementing the recommendations. We are reporting the results to you in order to facilitate your oversight of DOD's implementation of the BRAC 2005 recommendations.

To determine the extent to which DLA's cost and savings estimates varied from those of the BRAC Commission, we reviewed and compared DLA's estimates—as presented in its September 28, 2007, draft SS&D business plan and its September 28, 2007, updated DLR business plan—with those of the BRAC Commission, and discussed the rationale for variances with DLA officials. The September 2007 business plans were the most current plans available at the time of our review and provide more current estimates and associated variances with BRAC Commission estimates than those provided in our December 2007 report on overall BRAC costs and savings.⁵ In that report we used fiscal year 2008 DOD budget data for comparative purposes. To determine DLA's progress in implementing these two recommendations and the challenges associated with their implementation, we analyzed supporting data and interviewed officials at various levels within DOD, DLA headquarters and selected supply distribution depots, various military services' headquarters offices, and

⁴GAO, *Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignment*, [GAO-05-785](#) (Washington, D.C.: July 1, 2005).

⁵GAO, *Military Base Realignments and Closures: Cost Estimates Have Increased and Are Likely to Continue to Evolve*, [GAO-08-159](#) (Washington, D.C.: Dec. 11, 2007).

industrial customers aligned with DLA distribution depots. We also discussed with DLA officials various implementation challenges that have emerged as implementation planning has progressed. We further relied on our related work and resulting report issued in October 2007 regarding actions associated with the implementation of the SS&D recommendation.⁶ While we determined that the data presented in DLA's planning documents were sufficiently reliable for the purposes of this report, it should be noted that the business plans are considered "living" documents and the data presented therein represent a point in time as plans are subject to change as implementation proceeds. We conducted this performance audit from January 2006 through December 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. More detailed information on our scope and methodology appears in appendix III.

Results in Brief

Since the BRAC Commission issued its BRAC costs and savings estimates in 2005, DOD will spend more, save less, and take longer than expected to recoup up-front costs for the SS&D and DLR recommendations. Over the 2006-2011 implementation period, our analysis of DLA's data indicates that estimated net savings will be reduced by more than \$1.8 billion compared to the BRAC Commission's estimate, with a net cost of about \$222 million to DOD, because of increased estimated costs, decreased savings, and DLA's inclusion in the business plans of almost \$243 million in expected savings that we believe should not be counted as BRAC savings. The \$243 million in savings were to be achieved from implementing inventory reduction initiatives that were not directly the result of BRAC actions and would have occurred regardless of BRAC. While DLA asserts that these particular savings were "enabled" by the BRAC process, we believe that including savings unrelated to specific BRAC actions distorts and effectively overstates projected savings from implementing the BRAC

⁶GAO, *Military Base Realignments and Closures: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency*, [GAO-08-121R](#) (Washington, D.C.: Oct. 26, 2007).

recommendations.⁷ Our analysis further shows that the projected net annual recurring savings for both recommendations beginning in fiscal year 2012 have been reduced from \$360 million to approximately \$167 million, and the expected savings over a 20-year period ending in fiscal year 2025 have been reduced from almost \$4.8 billion to about \$1.4 billion.⁸ While some variances with initial estimates are to be expected as plans are refined, the magnitude of these variances is large and has resulted from a number of factors, such as the use of inaccurate or outdated data, misinterpretation of terms and specific data, and changes in operational requirements that occurred during the decision-making process for formulating the recommendations.⁹ As implementation continues and plans are further refined, we believe that estimates are likely to continue to change because estimates of information technology costs are still being developed and key savings assumptions have to be validated during implementation. Thus, the magnitude of the potential savings for these recommendations will remain uncertain and may be subject to considerable variability as implementation of the recommendations progresses. As a result, we believe it is important to update and track these savings over time in order to judge the financial performance of the recommendations and make adjustments as necessary to achieve BRAC savings goals. While DLA has recognized the need to periodically update savings to reflect actual performance over time and had developed, as of October 2007, a methodology to do so for the DLR recommendation, no such methodology existed for the SS&D recommendation. Until DLA develops and fully implements these methodologies for monitoring and periodically reporting actual savings as implementation progresses, the uncertainties associated with the magnitude of the savings may preclude Congress and DOD decision makers from having the most complete

⁷According to DOD, “enabled” savings are those generated from non-BRAC initiatives that were enhanced (e.g., increased in scope, more aggressively pursued, or moved in new directions) in some way by the implementation of the BRAC recommendations.

⁸Twenty-year savings, also known as 20-year net present value in the BRAC Commission’s report, is a financial calculation that accounts for the time value of money by determining the present value of future savings minus up-front investment costs over a specified period of time. Determining net present value is important because it illustrates both the up-front investment costs and long-term savings in a single amount. In the context of BRAC implementation, net present value is calculated for a 20-year period from 2006 through 2025.

⁹DOD and the BRAC Commission used an estimation model during the decision-making process to assess various proposed recommendations. The model was not intended to produce budget-quality estimates and thus can not be assumed to represent the actual costs incurred or the savings achieved by implementing the recommendations.

information possible as they assess the relative financial performance of these BRAC recommendations.

While DLA's progress to date has focused primarily on planning efforts to implement these two recommendations, DLA faces several challenges as implementation proceeds and is taking actions to address them. DLA has taken several actions to implement the recommendations, primarily focusing on organizational and planning activities such as creating an office to oversee implementation actions and formulating implementation-related guidance and plans. DLA, in working with the services, faces several challenges in implementing these two recommendations that, if not properly addressed, could have adverse impacts on DOD's supply mission, which in turn could impair warfighter readiness. For example, one challenge repeatedly expressed by service officials involves DLA's ability to continue the timely provision of supplies to service industrial customers. If repair parts are not available when needed, the services are concerned that depot maintenance operations would be disrupted and mission readiness would be degraded. DLA faces additional challenges related to information technology and human capital. DLA also faced a challenge in the early planning stages in obtaining timely funding commitments from the services for their respective portions of implementation costs, and the potential exists for this to recur as budgets are adjusted and further refined as implementation proceeds. While our analysis of fiscal year 2008 BRAC budget documentation indicates that this funding challenge may have been somewhat mitigated, unless close attention is paid to subsequent budgets throughout the implementation period ending in September 2011, successful implementation of these two recommendations may be jeopardized. DLA has taken several initial actions to address these challenges, work through problems and concerns, and identify potential solutions and mitigating actions where possible. Although the effectiveness of these actions will not be fully known until implementation has progressed further and problems arise and are addressed, service officials we spoke with expressed satisfaction with the actions that have been taken to date. Nonetheless, because of potential disruptions to the services' industrial operations, continued collaboration and monitoring of the execution of BRAC actions as implementation proceeds is essential to make adjustments as necessary to mitigate potential adverse effects to the services and service readiness.

We are making several recommendations to improve the accountability and accuracy of costs and savings and promote the successful implementation of the SS&D and DLR recommendations. To improve the accuracy of the costs and savings attributable to the BRAC

recommendations, we are recommending that DLA include in its business plans only those costs and savings that directly result from actions taken to implement the BRAC recommendations. In addition, to provide greater accountability and visibility over the financial performance of these two DLA-managed BRAC recommendations, we are recommending that, as business plans are refined throughout the implementation period, DLA fully implement methodologies for periodically monitoring and updating costs and savings as implementation progresses for each recommendation. Furthermore, to help ensure that the execution of implementation plans remains on track and that these particular BRAC recommendations are successfully implemented, we are recommending that all respective service and DLA budget submissions for the remainder of the implementation period extending through fiscal year 2011 reflect all necessary funding to meet implementation milestones.

In commenting on a draft of this report, DOD concurred with our recommendations on implementing methodologies for periodically monitoring and updating net savings for the BRAC SS&D and DLR recommendations throughout the implementation period and ensuring that necessary funding to meet implementation milestones is reflected in all respective service and DLA budget submissions for the remainder of the implementation period ending in fiscal year 2011. DOD did not concur with our recommendation to revise DLA's business plans to exclude all expected savings that are not the direct result of BRAC actions. DOD stated that while \$243 million of its potential savings were not directly the result of BRAC actions, they were "enabled" by BRAC actions and should be attributable to the recommendation. We disagree and continue to believe that these expected savings resulting from the services' non-BRAC initiatives are not the direct result of BRAC actions and would have occurred regardless of BRAC. As a result, they should not be counted as BRAC savings and should be excluded from DLA's business plans for these BRAC recommendations. DOD's written comments are reprinted in appendix IV. DOD also provided technical comments, which we have incorporated into this report as appropriate.

Background

Since 1988, DOD has completed four base realignment and closure rounds and is currently in the process of implementing its fifth round—the 2005 BRAC round.¹⁰ As a result of the earlier BRAC rounds, DOD reported that

¹⁰The four prior rounds took place in 1988, 1991, 1993, and 1995.

it had reduced its domestic infrastructure by about 20 percent in terms of plant replacement value and saved billions of dollars on an annual recurring basis for application to higher priority defense needs. Despite these infrastructure reductions, DOD recognized the need for additional closures and realignments following the 1995 closure round and made repeated efforts to gain congressional authorization for an additional closure round. Congress authorized a BRAC round for 2005 with the passage of the National Defense Authorization Act for Fiscal Year 2002.¹¹ On May 13, 2005, the Secretary of Defense made public his recommendations for the 2005 BRAC round and projected nearly \$50 billion in savings over a 20-year period. These recommendations were forwarded to the Defense Base Closure and Realignment Commission, commonly referred to as the BRAC Commission, which was established by law as an independent entity to evaluate DOD's recommendations.¹² The Commission subsequently presented its findings and recommendations to the President on September 8, 2005. The President approved the Commission's recommendations in their entirety and forwarded them to Congress on September 15, 2005. The recommendations became effective on November 9, 2005, and DOD has until September 15, 2011, to complete the implementation of all recommendations.

DOD has recognized that the implementation of recommendations that focus on business process reengineering actions involving multiple defense components from the 2005 BRAC round would likely be more difficult than those recommendations targeted to a single service or component. Because of the interest in pursuing transformation and fostering more jointness across the various defense components, DOD formed seven Joint Cross-Service Groups early in the BRAC decision-making process to formulate potential recommendations to achieve these goals. The Supply and Storage Joint Cross-Service Group pursued logistics economies to reduce the number of sites and related excess capacity across various defense components and ultimately developed three recommendations that were included in DOD's submission of proposed recommendations to the BRAC Commission. The Commission accepted, in their entirety, two of the recommendations—the elimination of DLA's supply, storage, and distribution functions for certain designated commodities such as tires, with reliance on the private sector for these functions and the realignment of DLA's supply, storage, and distribution

¹¹Pub. L. No. 107-107, Title XXX (2001).

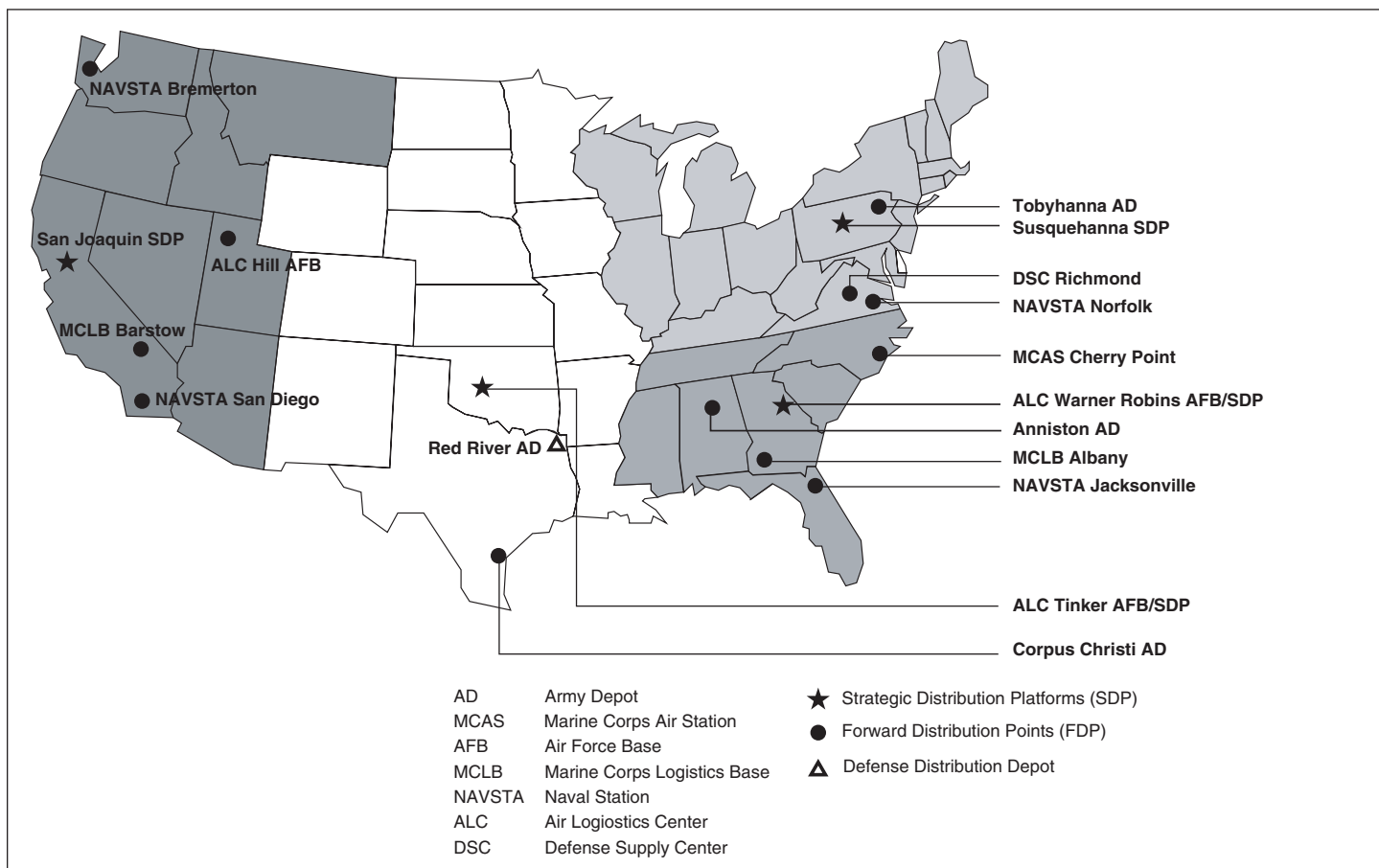
¹²Pub. L. No. 101-510, Title XXIX (1990); 10 U.S.C. § 2687 note.

system into four geographical regions—and made minor changes to the other recommendation—the transfer of the procurement of depot-level reparables from the military services to DLA. The latter two recommendations are the focus of this report because, when combined, the Commission expected these particular recommendations to generate about \$360 million annually in estimated savings beginning in 2012 and about \$4.8 billion over 20 years extending through fiscal year 2025. The latter figure represents over 13 percent of the nearly \$36 billion BRAC Commission 20-year savings estimate for implementing all 2005 BRAC round recommendations.

The supply, storage, and distribution recommendation is intended to transform existing logistics processes by reconfiguring the department's wholesale storage and distribution infrastructure across the continental United States into four hub-and-spoke geographical regions with the intent of improving support to the military forces. Each region is to have one hub, known as a strategic distribution platform, and multiple spokes, known as forward distribution points, to provide supplies to designated customers. Distribution depots, no longer needed for regional supply, will be realigned as forward distribution points and will provide dedicated receiving, storing, and issuing functions solely in support of on-base industrial customers such as maintenance depots, shipyards, and air logistics centers. Under this recommendation, these forward locations are to consolidate all supply and storage functions supporting industrial activities, to include those internal to the military services' depots and shipyards, and those at any intermediate levels that may exist. Figure 1 identifies the regions and specific locations of DLA's planned reconfigured supply, storage, and distribution depot network. We have recently reported on a portion of this recommendation, specifically various issues associated with the transfer of supply, storage, and distribution functions at specified military services' depot maintenance locations that are collocated with a DLA distribution depot.¹³

¹³ [GAO-08-121R](#).

Figure 1: DLA's Planned Reconfiguration of the Supply, Storage, and Distribution Depot Network



Source: DLA.

As noted in figure 1, DLA's distribution depot located at the Red River Army Depot in Texas was neither designated as a strategic distribution platform nor a forward distribution point. The BRAC Commission made no mention of the disposition of this particular location in its September 2005 report and thus this depot is neither subject to this BRAC 2005 recommendation nor any others. Initially, because the Army had recommended closing the Red River Army Depot installation, the distribution depot at this location was also slated for closure. However, with the Commission's decision to remove the Red River Army installation from the closure list and instead realign certain activities at the installation, the distribution depot was slated to remain. Thus, DLA retains

a traditional defense distribution depot located in close proximity to the planned Oklahoma City strategic distribution platform.

The DLR recommendation is intended to realign procurement and related support functions at 13 locations by making these functions the responsibility of DLA. The basis for the recommendation was the expectation of achieving savings over time by having a single agency, DLA, procure depot-level reparables for all of the services. Most of the projected savings result from assumptions about using long-term contracts, such as performance-based agreements or performance-based logistics, instead of smaller contracts each time a purchase is required.¹⁴ The DLR recommendation, as approved by the BRAC Commission, has three main elements: consolidation of depot-level reparable procurement across DOD within DLA, the completion of the transfer of remaining consumable item management to DLA, and the relocation of integrated material management functions to other locations.

To implement BRAC recommendations, DOD typically must incur various up-front investment costs during the 6-year implementation period in order to achieve long-term savings associated with the recommended actions. Such costs generally include, for example, one-time costs for actions such as military construction and personnel and equipment movement, as well as recurring costs for increased operation and maintenance of facilities and information systems. While savings from this investment may begin to accrue over the implementation period, additional savings typically occur annually on a longer-term basis beyond the implementation period ending in fiscal year 2011. One-time savings may include for example, reduced costs associated with inventory reduction or elimination of planned military construction. Recurring savings may include for example, reduced sustainment costs associated with maintaining less warehouse space. Net annual recurring savings after the implementation period are calculated by subtracting the annual recurring costs from the annual recurring savings. Expected 20-year savings, also referred to as 20-year net present value savings, take into

¹⁴Performance-based logistics is defined as the purchase of weapon system sustainment as part of an integrated weapon system package based on output measures, such as weapon system availability, rather than input measures, such as parts and technical service.

account all one-time and recurring costs and savings incurred over the fiscal year 2006 through 2025 time period.¹⁵

To calculate estimates for these different types of costs and savings for the 2005 BRAC round, DOD and the BRAC Commission used the Cost of Base Realignment Actions model, commonly referred to as COBRA, which has been used in all previous BRAC rounds to provide a standard quantitative approach to compare estimated costs and savings across various proposed recommendations. The model relies to a large extent on standard factors and averages but is not intended to and consequently does not present budget quality estimates. As a result, estimates generated by the model cannot be assumed to represent the actual costs that Congress will need to fund through appropriations to complete implementation of BRAC recommendations, nor can savings be assumed to fully reflect the savings to be achieved after implementation. We have examined this quantitative model in the past, as well as during our review of the 2005 BRAC round, and, given the quality of the data and assumptions used in the model, found it to be a generally reasonable estimator for comparing potential costs and savings among alternative closure and realignment scenarios with the caveat that the estimates do not represent budget quality data. Nevertheless, in the absence of budget quality data, the results of the model are what were used at the time of BRAC decision making and were reported to Congress to justify the expected costs and savings associated with the BRAC recommendations. The results from the model are the only available data that can be used to compare the original BRAC Commission estimates to the more refined estimates in subsequent business plans and in budget submissions to Congress.

¹⁵In the context of BRAC, net present value savings take into account the time value of money in calculating the value of future costs and savings. For fiscal year 2005, DOD used a 2.8 percent discount rate to calculate net present value.

Cost Estimates Are Higher and Savings Estimates Are Lower than BRAC Commission Estimates for Implementing the Recommendations

Based on our analysis of DLA's business plans, cost estimates are higher and savings estimates are lower than the BRAC Commission estimated for implementing both the SS&D and DLR recommendations, and it will take longer than expected to recoup up-front costs for implementing the recommendations. Although we calculated that total long-term savings over 20 years may occur, our analysis of DLA's business plans shows that there will instead be a net cost to DOD rather than savings over the fiscal year 2006 through 2011 implementation period for these two recommendations. For both the SS&D and DLR recommendations, the net savings over the implementation period, the long-term net annual recurring savings for fiscal years 2012 through 2025, and the 20-year net present value of those savings from fiscal year 2006 through 2025 are all likely to be less than the BRAC Commission estimated. As implementation proceeds, costs are likely to continue increasing and savings are likely to continue to change, further changing the long-term savings to be realized.

Although Long-Term Savings Are Estimated to Occur, Net Savings Are Estimated to Be Reduced by More than \$1.8 Billion for Both Recommendations over the Implementation Period

Although long-term savings are expected to occur, our analysis of cost and savings data in DLA's business plans shows that estimated net savings will be reduced by more than \$1.8 billion from the BRAC Commission's estimated net savings to implement the SS&D and DLR recommendations over the fiscal year 2006 through 2011 implementation period. The \$1.8 billion figure consists of a combination of a \$328 million increase in expected costs—51 percent—and an almost \$1.5 billion decrease in expected savings—67 percent. Our analysis of DLA's data indicates that there will instead be a net cost of about \$222 million to DOD over this period rather than a savings because the plans included almost \$243 million in expected savings that DLA believes were enabled by BRAC actions and should be counted as BRAC savings. We do not believe that these enabled savings should be counted as BRAC savings because they are not the direct result of a BRAC action. Section A of table 1 below shows the cost and savings estimates over the fiscal year 2006 through 2011 implementation period by recommendation. Section B of table 1 shows the net annual recurring savings estimates over fiscal years 2012 through 2025 by recommendation. Our analysis of these savings data presented in DLA's business plans shows that the projected net annual recurring savings are almost \$167 million, rather than the \$360 million estimated by the BRAC Commission, a 54 percent decrease. Similarly, section C of table 1 shows the 20-year net present value of savings estimates over fiscal years 2006 through 2025 by recommendation. Our analysis of these savings shows the 20-year net present value of estimated savings for this period is about \$1.4 billion, rather than almost \$4.8 billion as estimated by the BRAC Commission, a 70 percent decrease. Based on

our analysis of the BRAC Commission estimates, DOD's up-front investments for both recommendations would begin to pay back in fiscal year 2009. Instead, due to the variances in costs and savings, DOD's payback period¹⁶ will be prolonged to fiscal year 2012 for the SS&D recommendation—3 years longer than expected—and fiscal year 2014 for the DLR recommendation—5 years longer than expected.

Table 1: Comparison of Cost and Savings Estimates for the SS&D and DLR Recommendations as of September 2007

Category	BRAC Commission estimate ^a	DLA business plan	GAO analysis ^b	Variance increase/ (decrease) ^c	Percentage change
Section A: Comparison of cost and savings estimates for implementation period—fiscal years 2006-2011					
Then-year dollars in millions					
SS&D costs	\$426.3	\$564.1	\$564.1	\$137.8	32
DLR costs	211.9	401.7	401.7	189.8	90
Total costs (FY 2006-2011)	\$638.2	\$965.8	\$965.8	\$327.6	51
SS&D savings	\$1,605.9	\$631.7	\$460.3	(\$1,145.6)	(71)
DLR savings	624.5	354.9	283.9	(340.6)	(55)
Total savings (FY 2006-2011)	\$2,230.4	\$986.6	\$744.2	(\$1,486.2)	(67)
Net savings^d	\$1,592.2	\$20.8	(\$221.6)	(\$1,813.8)	N/A^e
Section B: Comparison of net annual recurring savings estimates—fiscal years 2012 – 2025					
Fiscal year 2005 constant dollars in millions					
SS&D net annual recurring savings	\$203.2	\$147.9	\$122.8	(\$80.4)	(40)
DLR net annual recurring savings	156.8	53.4	44.0	(112.8)	(72)
Total net annual recurring savings (FY 2012-2025)	\$360.0	\$201.3	\$166.8	(\$193.2)	(54)
Section C: Comparison of 20-year net present value of savings estimates—fiscal years 2006-2025					
Fiscal year 2005 constant dollars in millions					
SS&D 20-year net present value savings	\$2,925.8	\$1,487.7 ^f	\$1,096.4	(\$1,829.4)	(63)
DLR 20-year net present value savings	1,857.8	486.9 ^f	332.3	(1,525.5)	(82)
Total 20-year net present value (FY 2006-2025)	\$4,783.6	\$1,974.6^g	\$1,428.7	(\$3,354.9)	(70)

Source: GAO analysis of DLA-provided data and the BRAC Commission 2005 report.

¹⁶ Payback period is a metric used by DOD and the BRAC Commission in evaluating individual BRAC recommendations and represents the time required to recoup up-front investment costs to implement BRAC recommendations. Thus, payback or the break-even point is when cumulative savings exceed cumulative costs.

^aWhile the BRAC Commission reported its estimates in fiscal year 2005 constant dollars, DLA subsequently converted them to then-year (current) dollars for the implementation period in its business plans.

^bExcludes three inventory-related initiatives included in the draft September 28, 2007, SS&D business plan and an inventory-related initiative included in the draft September 28, 2007, DLR business plan that are not directly the result of BRAC actions and that we believe should not be counted as BRAC savings.

^cRepresents the variance between the GAO analysis and the BRAC Commission estimate.

^dNet savings are the net of subtracting total costs from total savings. Our analysis indicates that a loss, rather than a net savings, will occur over the implementation period.

^eNo percentage change is displayed because the change was from a positive number to a negative number, which renders the percentage change statistically meaningless.

^fGAO estimate based on DLA draft September 28, 2007, SS&D business plan data and DLA's updated September 28, 2007, DLR business plan data.

Although Long-Term Savings Are Estimated to Occur, Net Savings Are Estimated to Be Reduced by about \$1.3 Billion over the Implementation Period for the SS&D Recommendation

Although long-term savings are estimated to occur, when increased cost and reduced savings estimates are considered, we estimate that the net savings for implementation of the SS&D recommendation will be reduced by about \$1.3 billion compared to the BRAC Commission's net savings estimate over the fiscal year 2006 to 2011 implementation period. DLA's business plan estimates for one-time and recurring costs from fiscal years 2006 through 2011 have increased by almost \$138 million from those of the BRAC Commission, due mainly to increases for operation and maintenance and military construction costs. In addition, we estimate that one-time and recurring savings for fiscal years 2006 through 2011 decreased by over \$1.1 billion from the BRAC Commission estimates, due mainly to a reduction in the expected decrease in the size of the forward distribution points, fewer personnel reductions, and DLA's inclusion of \$172 million in expected savings resulting from inventory reduction initiatives that are not directly the result of BRAC actions. Although long-term savings are estimated to occur, based on the increased costs and decreased savings projected in DLA's business plan and the exclusion of unrelated BRAC savings from inventory reduction initiatives, we calculated that the net annual recurring savings for fiscal years 2012 through 2025 are likely to be about \$80 million less than the BRAC Commission estimated, and the 20-year savings from fiscal years 2006 through 2025 are likely to be more than \$1.8 billion less than the BRAC Commission estimated.

Cost Estimates over Implementation Period Increased by \$138 Million

DLA's business plan shows that the total cost estimates for implementing the SS&D recommendation had increased by almost \$138 million over the 6-year implementation period compared to the BRAC Commission's estimate. As shown in table 2, DLA estimates that it will cost DOD about \$564 million over this period, which is an increase of approximately \$138

million, or 32 percent, over the Commission's estimate of about \$426 million. DLA's one-time costs are now estimated to be about \$541 million, an increase of almost \$333 million or 160 percent. However, estimates for recurring costs were eliminated from the business plan because these costs will be reimbursed by the military services.

Table 2: Comparison of DLA's Cost Estimates to BRAC Commission Cost Estimates for Fiscal Years 2006-2011 for the SS&D Recommendation as of September 2007

Then-year dollars in millions				
Category	BRAC Commission estimate ^a	DLA business plan	Variance increase/ (decrease)	Percentage change
Total one-time costs	\$208.3	\$540.8	\$332.5	160
Costs funded outside of the account ^b	0.0	23.3	23.3	100
Total recurring costs	\$218.0	\$0.0	(\$218.0)	(100)
Total costs	\$426.3	\$564.1	\$137.8	32

Source: GAO analysis of DLA September 28, 2007, draft business plan and the BRAC 2005 report.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars, DLA subsequently converted them to then-year (current) dollars in its business plans.

^bAccording to DLA officials, costs funded outside of the account refers to operation and maintenance costs for information technology expenses in the Army that will be paid for out of the Army's appropriated funds.

DLA's business plan describes a variety of factors that contributed to the increase in one-time costs. Some of the major increases include an additional \$49 million to re-warehouse stock at the strategic distribution platforms and consolidate storage at the forward distribution points, almost \$47 million to develop software systems at the sites collocated with service industrial facilities, \$36 million to modify existing A-76 contracts at some locations,¹⁷ \$27.5 million for warehouse storage aids, and \$20.7 million to pay travel expenses of the DLA implementation teams. Our analysis of the business plan and discussions with agency officials indicate

¹⁷Under the A-76 process, otherwise known as competitive sourcing, the military services and other defense components conduct a public/private competition for a commercial activity currently performed by government personnel to determine whether it would be cost-effective to contract with the private sector for that activity's performance.

that most of these increases are a result of changes occurring since the data were collected during the up-front BRAC decision-making process.

DLA's business plan also shows that nearly \$97 million of the increase in one-time costs was attributed to increased military construction costs at three locations. First, \$55 million is needed to build more storage space at the defense distribution depot located at Susquehanna, Pennsylvania due to changes in operational requirements over time. While this depot had considerable excess capacity in 2003 when the BRAC Commission data were collected, by 2006 the situation had changed and Susquehanna no longer had the capacity to store the material that the BRAC recommendation envisioned. Second, \$22 million is needed to satisfy requirements for a containerization, consolidation, and palletization facility at DLA's Oklahoma City, Oklahoma depot located at Tinker Air Force Base so that this facility can function as a strategic distribution platform. This facility was designated as a strategic distribution platform after the BRAC Commission decided not to close the Red River Army depot. However, once Oklahoma City was designated instead as a strategic distribution platform, the cost for this facility was not included in the recommendation. Third, \$20 million is needed because of an input error that resulted in inaccurate data being used during the BRAC process to calculate the square footage requirements of the containerization, consolidation, and palletization facility scheduled to be built at the Warner Robins strategic distribution platform. The square footage was entered into the BRAC database as 20,000 square feet when it should have been 200,000 square feet, thus increasing the cost.

**Savings Estimates over
Implementation Period
Decreased by More than \$1.1
Billion**

Our analysis of DLA's estimates also shows that one-time and recurring savings for implementing the SS&D recommendation have decreased by more than \$1.1 billion from the BRAC Commission estimates over the implementation period. As shown in table 3, our analysis of the business plan's one-time savings estimates shows a decrease of almost \$670 million, a 95 percent decrease. As a result, we estimate that one-time savings for this period will be about \$34 million, rather than the almost \$704 million estimated by the BRAC Commission. Similarly, our analysis of the business plan shows a decrease in recurring savings of about \$476 million over this same period, a 53 percent decrease. As a result, we estimate that total recurring savings will be over \$426 million, rather than about \$902 million as estimated by the Commission.

Table 3: Comparison of DLA’s Savings Estimates to the BRAC Commission’s Estimates for the SS&D Recommendation for Fiscal Years 2006-2011 as of September 2007

Then-year dollars in millions					
Category	BRAC Commission estimate ^a	DLA business plan	GAO analysis ^b	Variance increase/ (decrease) ^c	Percentage change
Total one-time savings	\$703.8	\$45.6	\$33.9	(\$669.9)	(95)
Total recurring savings	902.1	586.1	426.3	(475.8)	(53)
Total savings	\$1,605.9	\$631.7	\$460.3	(\$1,145.6)	(71)

Source: GAO analysis of DLA-provided data and the BRAC Commission 2005 report.

Note: Amounts may not total due to rounding.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars, DLA subsequently converted them to then-year (current) dollars in its business plans.

^bExcludes \$172 million in expected savings DLA included in its draft September 28, 2007, SS&D business plan that resulted from inventory reduction initiatives that are not directly the result of BRAC actions and that we believe should not be counted as BRAC savings.

^cRepresents the variance between the GAO analysis and the BRAC Commission estimate.

The \$670 million decrease in one-time savings is attributed primarily to a misinterpretation that occurred during the BRAC decision-making process for formulating recommendations in defining duplicate inventory and DLA’s inclusion of potential savings resulting from inventory reduction initiatives that are not the direct result of BRAC actions. Specifically, as we previously reported, the BRAC Commission’s estimate of almost \$704 million in one-time savings was based on the belief that eliminating duplicate inventory—inventory stored by both the services and the DLA depots—would produce both one-time and recurring savings.¹⁸ However, after further review of the potentially duplicative items, DLA and the services found that data generated by DOD during the BRAC decision-making process were flawed. For example, war reserve materiel, materiel held for other customers, and materiel stored at the Red River Army Depot were incorrectly included in the BRAC estimating model. These items were not actually duplicative and thus could not be eliminated. As a result, the savings associated with these items will not occur. After DLA’s business plan was revised to correct these misinterpretations, the BRAC

¹⁸ [GAO-08-121R](#).

Commission's estimated \$704 million in one-time savings for inventory reduction was eliminated, and was subsequently replaced with almost \$46 million in one-time savings, some of which are due to inventory reduction initiatives we believe are unrelated to BRAC, as explained later in this subsection.

The \$476 million decrease in recurring savings is attributed primarily to a variety of factors, such as the reduction of savings associated with duplicative inventory, an increase in the size of the forward distribution points, fewer personnel reductions, and the inclusion of savings related to inventory reduction initiatives we believe are unrelated to BRAC. The recurring savings associated with the duplicate inventory were reduced by about \$305 million because the cost to hold inventory is directly related to the quantities of inventory stored. In addition, recurring savings estimates were decreased by about \$84 million because the size of the forward distribution points has increased from the original BRAC estimates. Our review of supporting documentation showed that DLA reevaluated the size of the forward distribution points after it determined that the initial request for data regarding storage of hazardous, hard-to-handle, heavy bulk, and major end items was misinterpreted, and also so that they could better accommodate high-volume customers. Moreover, recurring savings estimates were reduced by almost \$79 million because DLA projects that fewer personnel reductions will occur than the Commission estimated. For example, DLA now estimates that 465 civilian positions will be eliminated—more than 350 fewer positions than the Commission estimated. DLA attributed the decrease in planned personnel reductions to changes in operational requirements over time. Specifically, DLA reports in its business plan that since the time of the original request for data in September 2003, personnel efficiencies and reductions due to mission and other workload changes have been implemented at various distribution depots.

Although DLA projects savings of almost \$632 million over the implementation period, our analysis shows these savings should be decreased to about \$460 million over this period because the business plan included almost \$172 million in expected savings that we believe should not be counted as BRAC savings. Once DLA realized that estimated savings from duplicate inventory would not occur as originally planned, it replaced the \$704 million initial one-time savings estimate and \$306 million of its recurring savings estimate in its business plan with estimated savings

Estimated Net Annual
Recurring Savings Reduced by
\$82 Million and Estimated 20-
Year Net Present Value Will Be
Reduced by \$1.8 Billion

from four inventory reduction initiatives.¹⁹ As we previously reported in October 2007, while these initiatives are inventory related and may produce savings, we believe that three of these initiatives, totaling about \$172 million, are not the direct result of BRAC actions and therefore are not BRAC savings. The savings from these three initiatives resulted from pre-BRAC actions and initiatives already planned by the services and would have occurred regardless of BRAC. In commenting on our October 2007 report, DOD stated that it considered the savings from these inventory reduction initiatives to be “enabled by the BRAC recommendation and therefore should be attributable to the recommendation.” We disagreed, and we continue to believe that the \$172 million in expected savings resulting from the services’ initiatives should not be counted as BRAC savings. Even DLA’s business plan acknowledges that these inventory savings result from actions the services have already planned to implement. For example, \$104 million of these savings are attributed to the services’ initiatives to identify and eliminate dormant or obsolete inventory, even though such actions respond to a supply regulation and are part of DOD’s routine materiel management practices.²⁰ We believe that including savings unrelated to BRAC actions distorts and effectively overstates projected savings from implementing the SS&D recommendation.

Although long-term savings are expected to occur, based on the increased costs and decreased savings projected in DLA’s SS&D business plan and the exclusion of unrelated BRAC savings from inventory reduction initiatives, we calculated that estimated net annual recurring savings will be reduced by about \$80 million and the estimated 20-year savings will be reduced by more than \$1.8 billion. Using DLA’s data, which included expected savings resulting from inventory reduction initiatives that are not directly the result of BRAC actions, we recalculated the net annual recurring savings beginning in fiscal year 2012 and thereafter to be almost \$123 million, which is about \$80 million or 40 percent less than the BRAC Commission’s estimate of about \$203 million, as shown in table 4. Because

¹⁹The September 2007 draft SS&D business plan states that inventory savings associated with four service and DLA inventory reduction initiatives were being substituted for the original inventory savings. According to DLA officials, this decision was not documented. These four initiatives were provided by the Army, Air Force, Marine Corps, and DLA. They were designed to create efficiencies through reducing and phasing out obsolete inventory and improving procurement practices.

²⁰DOD Supply Chain Materiel Management Regulation, DOD 4140.1-R, Section C2.8 Materiel Retention (May 23, 2003).

of the reduction in annual recurring savings, the expected 20-year savings fall to about \$1.1 billion—a 63 percent decrease from the BRAC Commission’s projected \$2.9 billion in long-term savings.

Table 4: Comparison of BRAC Commission’s Long-Term Savings Estimates to GAO’s Recalculated Estimates for the SS&D Recommendation as of September 2007

Fiscal year 2005 constant dollars in millions					
Category	BRAC Commission estimate	DLA business plan	GAO analysis ^a	Variance increase/ (decrease) ^b	Percentage change
SS&D net annual recurring savings (FY 2012–2025)	\$203.2	\$147.9	\$122.8	(\$80.4)	(40)
SS&D 20-year net present value savings (FY 2006–2025)	\$2,925.8	\$1,487.7 ^c	\$1,096.4	(\$1,829.4)	(63)

Source: GAO analysis of DLA-provided data and the BRAC Commission 2005 report.

^aExcludes three inventory-related initiatives included in the draft September 28, 2007, SS&D business plan that are not directly the result of BRAC actions and that we believe should not be counted as BRAC savings.

^bRepresents the variance between the GAO analysis and the BRAC Commission estimate.

^cGAO estimate based on DLA business plan data.

Although Long-Term Savings Are Estimated to Occur, Net Savings Are Estimated to Be Reduced by \$530 Million over the Implementation Period for the DLR Recommendation

Although long-term savings are expected to occur, when increased costs and reduced savings are taken into account, we estimate that the net savings for implementation of the DLR recommendation will be reduced by \$530 million compared to the BRAC Commission’s net savings estimate over the fiscal year 2006 to 2011 implementation period. DLA estimates one-time costs during this period are increasing by about \$258 million—more than 194 percent—from the BRAC Commission estimates, due mainly to changes in the operation and maintenance and military construction costs. In addition, we estimate that one-time and recurring savings for fiscal years 2006 through 2011 decreased by over \$340 million from the BRAC Commission estimates, due mainly to a reduction in inventory savings driven by a 1-year delay in implementation, changes in the number of civilian positions that would be eliminated or transferred in place from the services to DLA, and DLA’s inclusion of \$71 million in expected savings resulting from an inventory reduction initiative that is not directly the result of BRAC actions. Based on increased costs and decreased savings now projected in DLA’s business plan and the exclusion

Cost Estimates over
Implementation Period
Increased by \$190 Million

of unrelated BRAC savings from inventory reduction initiatives, we calculated that the net annual recurring savings beginning in 2012 are likely to be almost \$113 million less than the Commission estimated, and the 20-year savings through 2025 are likely to be about \$1.5 billion less.

Our analysis of DLA’s DLR business plan shows that the total cost estimates for implementing the DLR recommendation increased by \$190 million over the implementation period compared to the BRAC Commission’s estimates. As shown in table 5, DLA estimates that implementation of this recommendation will cost DOD almost \$402 million over this period, which is a 90 percent increase over the Commission estimate of almost \$212 million. The BRAC Commission estimated one-time costs would total nearly \$133 million; however, DLA’s business plan shows that these costs are estimated to be about \$390 million, an increase of almost \$258 million or 194 percent. Conversely, estimates for recurring costs have decreased, and are estimated to be more than \$11 million, a decrease of about \$68 million or 86 percent, rather than almost \$80 million as estimated by the Commission.

Table 5: Comparison of DLA’s Cost Estimates to BRAC Commission Cost Estimates for Fiscal Years 2006-2011 for the DLR Recommendation as of September 2007

Then-year dollars in millions				
Category	BRAC Commission estimate ^a	DLA business plan	Variance increase/ (decrease)	Percentage change
Total one-time costs	\$132.7	\$390.4	\$257.7	194
Total recurring costs	79.2	11.4	(67.8)	(86)
Total costs	\$211.9	\$401.8	\$189.9	90

Source: GAO analysis of DLA’s updated September 28, 2007, DLR business plan and the BRAC 2005 report.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars, DLA subsequently converted them to then-year (current) dollars in its business plans.

DLA attributes the almost \$68 million decrease in recurring costs to the removal of these costs from the business plan because these costs will be reimbursed by the military services. The remaining \$11 million in recurring costs mainly represents the Army’s share of recurring costs related to the relocation of Army integrated material management functions from Rock Island, Illinois to Detroit, Michigan.

According to the business plan, the almost \$258 million increase in one-time costs is primarily due to a nearly \$134 million increase in information technology costs and a \$64 million increase in military construction costs. Information technology cost estimates have increased by \$134 million for DLA's electronic procurement system to support a business system modernization initiative that is intended to provide DLA with the capability of managing the procurement of depot-level reparable at all locations. We found that the BRAC Commission estimates were based on incomplete data because the business processes and corresponding information technology requirements were unknown at the time the BRAC data were collected. As of December 2007, the business plan reflects the information technology costs for the development of an electronic procurement system, but the business plan does not reflect the information technology costs to enable the services to bridge their systems to the new DLA system. The services, in conjunction with DLA, are still determining these requirements and as a result, the business plans do not yet reflect final information technology cost estimates. As DLA and the services further define these requirements, DLA plans to include the associated costs in subsequent business plans. In addition, the business plan shows increased one-time costs of \$64 million associated with changes in the construction planned at the Detroit Arsenal.²¹ According to Army officials, the BRAC Commission estimates were based on incomplete data because contractor personnel were not included in the BRAC data collected in September 2003. Since the BRAC Commission estimates, the size of the administrative building planned for the Detroit Arsenal has increased to include contractor personnel, and the plan for a parking lot has been changed to a parking garage, both of which increase costs. When discussing these construction increases with DLA and Army officials, we were informed that these particular actions are not related to the consolidation of depot-level reparable procurement, but instead are related to the movement of integrated material management personnel from other locations, such as Rock Island, as specified by the BRAC Commission.

The DLR business plan does not discuss in detail the three elements that comprise the recommendation: consolidation of depot-level reparable procurement across DOD within DLA, the completion of the transfer of consumable item management to DLA, and the relocation of Army

²¹This construction includes an administrative building, a parking garage, a weapons maintenance and operations center, and a weapon system support and training center.

integrated material management functions from Rock Island, Illinois to Detroit, Michigan. We worked with DLA to identify the costs and savings associated with the three elements of the recommendation, as shown in table 6. We found that relocation of integrated material management functions accounts for almost half of total implementation costs. This is attributable primarily to relocations which consolidate various Army Tank-automotive and Armaments Command integrated material management activities at Detroit, Michigan. According to the business plan, the one-time estimated cost to relocate the Army integrated materiel management functions to Detroit will be almost \$184 million—almost half of the over \$390 million in one-time costs for implementing the DLR recommendation over the implementation period.

Table 6: Total Costs and Savings for each Element of the DLR Recommendation for Fiscal Years 2006-2011 as of September 2007

Then-year dollars in millions				
Category	Consumable item transfer	Consolidation of depot-level procurement	Integrated material management	Total
One-time costs	\$3.6	\$202.8	\$183.9	\$390.3
Recurring costs	0.0	0.6	10.8	11.4
Total costs	\$3.6	\$203.4	\$194.7	\$401.7
One-time savings	0.0	164.5	0.0	164.5
Recurring savings	13.0	106.4	0.0	119.4
Total savings	\$13.0	\$270.9	\$0.0	\$283.9
Net implementation costs/(savings)	(\$9.4)	(\$67.5)	\$194.7	\$117.8

Source: GAO's analysis of DLA's September 28, 2007, DLR business plan data.

Because the main source of net savings for this recommendation is the consolidation of procurement and related support functions of depot-level reparable, our review focused primarily on that element of the recommendation. Although we did not focus on the consumable item transfer and the integrated material management elements of the recommendation, our analysis of DLA's business plan, as shown in table 6, shows that there are about \$9 million in net savings over the implementation period due to the consumable item transfer element of the recommendation and no net savings over the implementation period resulting from the integrated material management element.

Savings Estimates over Implementation Period Decreased by almost \$341 Million

Based upon our analysis, one-time and recurring savings estimates for implementing the DLR recommendation over the fiscal year 2006 through 2011 BRAC implementation period have decreased by almost \$341 million from the BRAC Commission estimates. As shown in table 7, our analysis shows that one-time savings for this recommendation are about \$164 million. The BRAC Commission did not estimate any one-time savings for this recommendation, but DLA reclassified \$176 million of the BRAC Commission's recurring savings related to inventory reduction as one-time savings. Although DLA projects one-time savings of over \$176 million over the implementation period, our analysis shows these one-time savings should be decreased by almost \$12 million to about \$164 million over this period because the business plan included an inventory reduction initiative that is not the direct result of BRAC actions; hence, any savings attributable to this initiative should not be considered BRAC savings. DLA and DOD officials contend that the expected savings due to this initiative will be "enabled" by the implementation of the DLR recommendation. However, while this initiative is inventory related and may produce savings, the initiative resulted from pre-BRAC actions and initiatives already planned by the services and we believe the associated savings would have occurred regardless of BRAC.

Table 7: Comparison of DLA's Savings Estimates to BRAC Commission Savings Estimates for Fiscal Years 2006-2011 for the DLR Recommendation as of September 2007

Then-year dollars in millions					
Category	BRAC Commission estimate ^a	DLA business plan	GAO analysis ^b	Variance increase/ (decrease)	Percentage change
Total one-time savings	\$0.0	\$176.2	\$164.5	\$164.5	100
Total recurring savings	\$624.5	\$178.7	\$119.4	(\$505.1)	(81)
Total savings	\$624.5	\$354.9	\$283.9	(\$340.6)	(55)

Source: GAO analysis of DLA's updated September 28, 2007, DLR business plan and the BRAC 2005 report.

^aThese figures are presented in then-year dollars. While the BRAC Commission reported its estimates in fiscal year 2005 constant dollars, DLA subsequently converted them to then-year (current) dollars in its business plans.

^bExcludes \$71 million in expected savings DLA included in its draft September 28, 2007, DLR business plan that resulted from an inventory reduction initiative that is not directly the result of BRAC actions and that we believe should not be counted as BRAC savings.

Our analysis shows that the recurring savings estimates for implementing the DLR recommendation has decreased by over \$505 million, or 81

percent, from the BRAC Commission estimate. Although DLA projects recurring savings of almost \$179 million during the implementation period, our analysis shows these savings should be decreased by over \$59 million to about \$119 million over this period because the business plan included an inventory reduction initiative that is not the direct result of BRAC actions; hence, any savings attributable to this initiative should not be considered BRAC savings. Thus, recurring savings estimates are projected to total about \$119 million, as compared to the BRAC Commission's estimate of almost \$625 million.

In addition to the exclusion of unrelated BRAC savings from inventory reduction initiatives, the decrease in recurring savings occurred primarily as a result of a reduction of \$212 million in inventory savings driven by a 1-year delay in implementation, adjustments in workforce configurations due to misinterpretation of the data needed, use of inaccurate data, and changes in operational requirements over time. Additionally, civilian salary savings are now expected to be lower than estimated because of confusion during the BRAC process in defining the number of positions that would be affected, double counting of positions to be eliminated, and changes in the workforce levels at affected sites since the recommendation was made. For example, Air Force officials told us that the Air Force interpreted the request for data in a way that overstated the number of positions to be eliminated or transferred in place, and Army officials told us that the Army inadvertently double-counted some positions in the initial BRAC request for data. In addition, we found that the Navy experienced reductions in authorized personnel levels subsequent to the BRAC report recommendations, leaving fewer positions available for reductions through BRAC. DLA officials anticipate continued fluctuation in the actual number of employees who will transfer and stated that the business plans are living documents that are expected to be adjusted over time to reflect the current view of requirements.

Estimated Net Annual
Recurring Savings Reduced by
Almost \$113 Million and
Estimated 20-Year Savings
Reduced by over \$1.5 Billion

Although long-term savings are estimated to occur, based on increased costs and decreased savings projected in DLA's business plan and the exclusion of unrelated BRAC savings from inventory reduction initiatives for the DLR recommendation, we calculated that the estimated net annual recurring savings are likely to be almost \$113 million less than the BRAC Commission estimated and the estimated 20-year savings are likely to be over \$1.5 billion less. Using DLA's data, which included expected savings resulting from inventory reduction initiatives that are not directly the result of BRAC actions, we recalculated the net annual recurring savings beginning in fiscal year 2012 and thereafter to be over \$44 million, which is about \$112 million or 72 percent less than the BRAC Commission's

estimate of almost \$157 million, as shown in table 8. Because of the reduction in annual recurring savings, the expected 20-year net present value of the savings attributable to this recommendation decreases by over \$1.5 billion—an 82 percent decrease from the Commission’s projected long-term savings of about \$1.9 billion.

Table 8: Comparison of BRAC Commission’s Long-Term Savings Estimates to GAO’s Recalculated Estimates for the DLR Recommendation as of September 2007

Fiscal year 2005 constant dollars in millions					
Category	BRAC Commission estimate	DLA business plan	GAO analysis ^a	Variance increase/ (decrease)	Percentage change
DLR net annual recurring savings (FY 2012–2025)	\$156.8	\$53.4	44.0	(\$112.8)	(72)
DLR 20-year net present value savings (FY 2012–2025)	\$1,857.8	\$486.9 ^b	\$332.3	(\$1,525.5)	(82)

Source: GAO analysis of BRAC Commission and DLA’s updated September 28, 2007, DLR business plan data.

^aExcludes an inventory-related initiative included in the draft September 28, 2007, DLR business plan that is not directly the result of BRAC actions and that we believe should not be counted as BRAC savings.

^bGAO estimate based on DLA business plan data.

Costs Are Likely to Continue to Increase and Savings Estimates Are Likely to Change as Implementation Proceeds

Costs are likely to continue increasing and savings are likely to change as DLA proceeds with implementation of the SS&D and DLR recommendations, primarily because of unknown costs and the assumptions that were used in estimating savings, but no methodology to monitor and report actual costs and savings has been fully implemented. For the SS&D recommendation, we found that costs are likely to increase primarily because information technology costs and the costs to redistribute required inventory among the various strategic distribution platforms and forward distribution points were unknown at the time the BRAC Commission developed its estimates. As of December 2007, these requirements and costs were not fully developed. For example, DLA officials informed us that the costs for redistributing inventory among DLA’s depots are estimated to be around \$100 million for each service, but these amounts have not been finalized or included in the business plans yet and could be higher once requirements are finalized. The magnitude of savings over time is also likely to change as DLA implements the SS&D recommendation. For example, the BRAC Commission’s savings estimate included savings associated with the elimination of almost 22 million

square feet of warehouse space. This figure was subsequently reduced to over 15 million in the SS&D business plan. However, officials from DLA's Defense Distribution Center told us that the square footage reduction would actually be even less than this reduced estimate because they do not expect needed inventory reductions to occur. For the projected savings in the business plan to materialize, inventory owned by the services and DLA would need to be reduced by 41 percent. At the time of our review, the Defense Distribution Center was conducting an analysis of this inventory to make recommendations of inventory items that could be eliminated. Because the services own a considerable portion of the inventory that would need to be reduced, DLA officials anticipate that the services will be reluctant to dispose of this inventory. DLA has no authority to direct the services to reduce their inventory, and so must rely on the services to voluntarily dispose of it. To the extent that the services retain inventory levels that do not meet the 41 percent reduction, savings will be reduced accordingly. In addition, increases or decreases in savings will be dependent on the realization of assumptions regarding DLA's efficiency and effectiveness in supporting its industrial customers, the extent of duplicate inventory reductions, the recurring savings associated with inventory reductions, and whether reductions in estimated warehouse space actually materialize.

Costs are also likely to increase and savings are likely to change as DLA proceeds with implementation of the DLR recommendation. Like the SS&D recommendation, the DLR recommendation will require additional costs that are still unknown at this time. For example, in its concurrence statements to the September 2007 draft DLR business plan, the Navy made reference to its unknown information technology requirements and costs, and the Army stated that it was continuing to work with DLA to refine these requirements, which would be funded outside of the BRAC account. In the October 2006 approved DLR business plan, the Army noted that the \$8.7 million identified in the plan was significantly understated for its information technology requirements. Moreover, estimated savings are subject to change depending on whether assumptions used in the estimating process are actually realized. For example, the Supply and Storage Joint Cross-Service Group assumed DLA can increase the amount of depot-level reparables purchased using long-term contracts by 2 percent per year from fiscal years 2008 through 2011. In theory, DLA would achieve some price savings as a result of consolidating the buying power of all the services into single contracts. We reported in July 2005 that the Supply and Storage Joint Cross-Service Group estimated DLA can save 2.8 cents on each contract dollar placed on performance-based agreements. DLA officials also informed us that they hope to reduce the amount of

inventory and associated holding costs of these depot-level reparable by reducing procurement lead times from current levels.²² Shorter procurement lead times can enable the same level of support with smaller inventories and smaller holding costs. These savings assumptions were attributed to reductions in the cost of money, cost of stock losses due to obsolescence, and cost of storage in our 2005 report.²³ The Supply and Storage Joint Cross-Service Group estimated that these factors together save about 17 percent of the estimated value of the acquisition cost of the stock that is no longer required to be held in inventory. Some smaller savings were to be realized by reducing the number of overall employees performing this function and also from spending less on base operations support as a result of having fewer employees. Increases or decreases in savings associated with the DLR recommendation will be dependent on the realization of these assumptions regarding consolidation of buying power, reduction of inventory, shorter procurement lead times, and personnel reductions.

In our July 2005 report, we also expressed concern that business process reengineering recommendations such as the SS&D and DLR recommendations could lead to a false sense of savings and lead to premature reductions in affected budgets in advance of actual savings being fully realized, as has sometimes occurred in past efforts to achieve savings through business process reengineering efforts. We identified in our July 2005 report the lack of adequate systems to track and update costs and savings as a concern regarding prior BRAC rounds. These concerns are reinforced by limitations in DOD's financial management systems that historically have made it difficult to fully identify the costs of operations and provide a complete baseline from which to assess savings.²⁴ DLA has recognized the need to track and update actual costs and savings resulting from BRAC actions. While DLA had, as of October 2007, developed a methodology with clear metrics for measuring the magnitude of actual costs and savings for the DLR recommendation, no such methodology existed for the SS&D recommendation. DLA officials told us that a similar methodology would be developed for the SS&D recommendation after the business plan is approved by the Office of the

²²Procurement or acquisition lead times are the length of time between the initiation of a procurement action and the receipt of items into the supply system.

²³[GAO-05-785](#).

²⁴We have designated DOD's financial management as a high-risk area since 1995. GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (January 2007).

Secretary of Defense. Until DLA develops, approves, and implements methodologies for monitoring and periodically reporting on costs and savings in the future, the variances and cost and savings uncertainties associated with implementation of these recommendations may prevent Congress and DOD decision makers from having the most complete information possible as they assess the relative financial performance of implementing these BRAC recommendations.

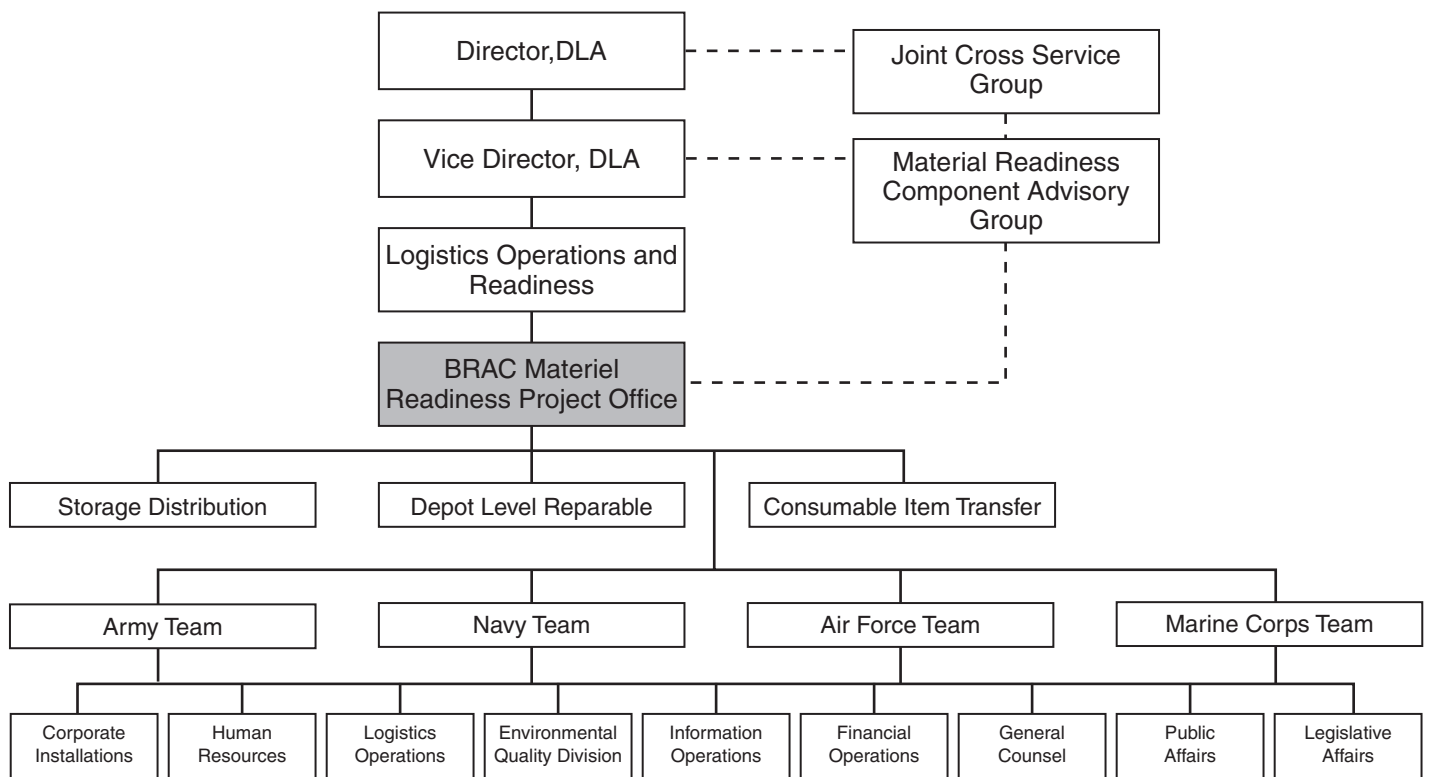
DLA Has Made Progress in Planning for the Implementation of the 2005 BRAC Recommendations but Faces Several Challenges that It Is Taking Actions to Address

While DLA's progress to date has focused primarily on planning efforts to implement these two recommendations, DLA faces several challenges as implementation proceeds and is taking actions to address them. DLA's early efforts have focused on developing implementation planning documents, such as a concept of operations and business plans; coordinating actions with the military services; and addressing challenges that arise during the planning process. Physical implementation actions—such as actual construction, transfers and movement of personnel, realignment of functions and inventory, and reductions in infrastructure—only began during the latter part of 2007. However, several challenges must be overcome to mitigate the potential adverse consequences on the services' depot-level operations and readiness that may occur during the implementation process. These challenges include addressing issues related to equipment readiness, business operations, information technology, human capital, and timely funding. DLA has taken several actions to address some of these challenges, but the effectiveness of these actions is still to be determined as implementation continues.

Early Efforts Have Focused on Establishment of an Implementation Office and Development of Operational and Planning Guidance

In anticipation of the BRAC Commission recommendations becoming effective in November 2005, DLA established an implementation office, referred to as the Materiel Readiness Project Office, and began taking organizational and planning actions in September 2005 to implement the Commission's recommendations. The office's primary mission is to manage the implementation of all BRAC recommendations for which DLA is the business manager, and in so doing it is charged with integrating and coordinating with the military services and DOD components to ensure that the intent of the recommendations is achieved upon implementation. The office operates within an established governance structure, as shown in figure 4, that provides access to higher management levels within DLA and the Supply and Storage Joint Cross-Service Group and incorporates on-site representation from the military services to provide assistance and guidance on implementation issues.

Figure 2: Command Relationship in Governance Structure



Source: GAO.

A key feature of the governance structure is the formation of integrated process teams, which include representatives from DLA and the services and have overall responsibility and accountability for planning and implementing the DLA-managed recommendations.²⁵ The responsibilities of these teams include developing the detailed business plans, forwarding

²⁵DLA plans to establish several integrated process teams to work through problems and concerns and, where possible, identify solutions during implementation of the SS&D and DLR BRAC recommendations. The teams focus on issues such as human performance, information technology, facilities and equipment, financial management, change management, supply and distribution, and metrics. These teams have been established at all four services for the DLR recommendation. As of December 2007, these teams have been established with the Air Force and Navy for implementation of the SS&D recommendation, and DLA plans to establish similar teams for the Marine Corps and Army as they begin implementation of the SS&D recommendation.

and presenting major issues up through the governance structure, and ensuring that implementation of the recommendations is in accordance with the BRAC Commission's recommendations. The governance structure also incorporates a capability to engage subject matter experts resident in DLA and the service components in areas such as finance, human capital, and information technology—areas that are integral to the successful implementation of the recommendations.

In addition to these organizational considerations, DLA has developed operational and planning guidance for implementing both recommendations, such as concepts of operations, implementation plans, and business plans. The concepts of operations guidance establishes the overall joint policy and operational agreements reached between DLA and the services for implementing the 2005 BRAC recommendations. Implementation plans specify actions to be taken to implement the overall policy and concepts established in the concept of operations. Finally, the business plans serve as the foundation for the program management necessary to ensure that the DLA-managed BRAC recommendations are implemented efficiently and effectively and will serve as the basis for allocation of resources. The business plans identify, among other things, planned implementation actions, movement schedules, financial plans, and construction details. It is the Office of the Secretary of Defense's intent, in its oversight role, to review the business plans for these recommendations, as well as all other BRAC recommendations, every 6 months. Because implementation of the BRAC recommendations is still in the early stages, the operational and planning guidance for these recommendations is expected to continue to evolve throughout the implementation period to reflect changes in available resources and the evolving nature of the implementation process.

Physical Implementation Actions Are Scheduled for Completion by September 2011

Physical implementation of the two recommendations began in October 2007 and is scheduled to be completed in September 2011 as mandated by the BRAC statute. The reconfiguration of DLA's supply, storage, and distribution operations will affect 17 sites. As shown in table 9, physical implementation actions for this recommendation began with personnel transfers and the consolidation of inventory in October 2007, and will end with the completion of inventory consolidation in September 2011. All 17 sites will either move personnel associated with supply, storage, and distribution operations to new worksites or will transfer personnel in-place to DLA control. All 12 forward distribution points are scheduled to move inventories to comply with the SS&D recommendation. Construction to improve the infrastructure used for storing and distributing supplies

will occur at three of four strategic distribution platforms—Oklahoma City, Susquehanna, and Warner Robins. The recommendation regarding procurement of depot-level reparables will affect 18 sites. As table 9 shows, physical implementation actions for this recommendation began with personnel transfers in May 2008 and are scheduled to end with completion of personnel moves and military construction in September 2011. All 18 sites will either move personnel associated with procurement of depot-level reparables to new worksites or will transfer personnel in-place to DLA control. Construction related to the DLR recommendation will occur only at 1 site—the Detroit Arsenal, Michigan. Unlike the SS&D recommendation, there is no scheduled movement of inventories associated with the DLR recommendation.

Table 9: Scheduled Start and End Dates of Physical Implementation Actions for the DLA SS&D and DLR Recommendations

2005 BRAC implementation period						
Action	2006	2007	2008	2009	2010	2011
SS&D						
Inventory ^a		October				September
Personnel ^b		October			September	
Construction ^c		December				April
DLR						
Personnel ^b			May			September
Construction ^c			October			September

Source: GAO analysis of September 2007 SS&D business plan and the September 2007 DLR business plan.

^aTime frame for movement of inventory.

^bTime frame for personnel moves and transfers.

^cTime frame for military construction projects.

DLA Faces Several Implementation Challenges

DLA faces several challenges in implementing these two BRAC recommendations for which it is the business manager. DOD recognized as early as September 2005 that implementing business process reengineering recommendations such as these within the BRAC process would present significant challenges because they present a major change in the way current business operations are conducted. These challenges, which DLA recognizes as ones needing attention as implementation progresses, focus on issues concerning (1) maintaining equipment readiness, (2) transitioning to a new concept of business operations, (3) developing information technology solutions, (4) managing human capital issues, (5) fully realizing savings and the impact of failing to do so on

future budgets, and (6) securing timely funding to implement the recommendations.

Maintaining Equipment Readiness

With both the SS&D and DLR recommendations, an implementation challenge repeatedly expressed by service officials was that DLA might not be able to maintain the same level of service needed to maintain equipment readiness. Service officials stated that when DLA takes over the supply support and procurement functions, it might not be able to provide the right kind of supplies and parts within the time frames needed to support the service's industrial or depot operations. If this occurs, equipment readiness could be adversely affected. Regarding supply support, DLA has not previously been responsible for providing the services with supplies at the retail level. Retail-level supply stocks are generally readily available supplies that are owned by the services and located in places such as maintenance facilities where repairs are conducted. If repair parts are not available when needed, the services expressed concern that it could impair readiness. For example, we asked officials at Air Force Materiel Command what the budget impact on the Air Force would be if DLA's implementation of the SS&D recommendation resulted in the addition of an extra day to the time required to repair spare parts at the Air Logistics Centers. Air Force Materiel Command calculated that accommodating this extra day without impairing readiness would cost more than \$48 million annually. DLA and service depot-level officials informed us that a primary reason for this concern is that the services' production and maintenance operations experienced significant disruption during a previous transition period when DLA assumed wholesale management of consumable items in the early 1990s. DLA and Army officials said that the Army remains unconvinced that DLA can make the transition with retail-level supplies without significantly disrupting the maintenance operations again. Furthermore, each of the services has a different system for determining retail-level supply requirements, of which the Army's system is the most complex, according to DLA officials. As a result, Army officials in particular expressed concern that DLA may not understand their system well enough to accurately determine the type and quantity of supplies needed, and so may be unable to procure the supplies needed in a timely manner.

In addition, the services are concerned that DLA has historically procured and managed consumable items—items that are not repaired for further use, such as nuts and bolts—rather than the more complex repairable items required under the DLR recommendation. Service officials noted that one of the critical differences between depot-level repairables and consumables is the long lead time associated with procuring some depot-

level reparables. Service officials told us that procurement contracting officials will need to monitor these items to ensure that contracting efforts begin early enough to accommodate these long lead times and thereby sustain readiness levels. For example, Air Force officials at Robins Air Force Base expressed concern that DLA contracting officials may not be sufficiently familiar with the differences between reparables and consumables and the readiness implications of these differences, which could potentially degrade equipment readiness.

Consequently, officials from each service stated that they would prefer DLA to proceed slowly in implementing these recommendations—namely by assuming easier functions prior to taking over more complex functions—in order to minimize any potential degradation of readiness. In response to the services' concerns, DLA is implementing both the SS&D and DLR recommendations with a risk-based, time-phased implementation process that moves from the least complex, lower-risk functions to the most complex and difficult functions using a time-phased approach. Service officials at the depot-level we spoke with generally stated that they were indifferent about DLA assuming the supply support and depot-level reparable procurement functions, as long as they continued to receive the same level of support from DLA as they now provide for themselves. As of December 2007, Warner Robins Air Logistics Center is the only site to complete the transfer of supply, storage, and distribution personnel to DLA for either recommendation. According to DLA and Air Force officials, there has not been a degradation of equipment readiness due to the transfer, which occurred in October 2007. While the supply, storage, and distribution transfer has been successful at Warner Robins to this point, DLA will continue to be confronted with challenges in maintaining equipment readiness as the implementation of the recommendations proceed.

Transitioning to a New Concept of Business Operations

Officials from the services and DLA cited challenges in transitioning to a new concept of business operations for the recommendations. The focus of the two recommendations is business process reengineering, which is intended to create a more effective supply, storage, and distribution framework and efficiencies in procuring depot-level reparables. In regards to the SS&D recommendation, DLA faces a challenge in developing a new pricing methodology that would be reasonable to use when it takes over the services' SS&D functions. Depot maintenance officials expressed concern that if the transfer of production integrated supply functions to DLA takes place using DLA's existing price structure, it would likely increase the cost of depot maintenance operations. These officials stated that the depots may then have to pass these additional costs on to their

customers by increasing their hourly rates. DLA officials told us, however, that they plan to develop a new pricing methodology as they gain more experience in transitioning to the new way of business in interacting with the depots, as discussed below in the section regarding performance-based agreements. In regards to the DLR recommendation, DLA faces challenges in the development of a new concept of business operations, which is predicated on the services relinquishing control over the procurement of depot-level reparables to DLA, in order to create efficiencies in the procurement process. For example, according to DLA officials, DLA may be limited in its ability to achieve the expected savings to the extent that the services bundle the procurement of depot-level reparables with the maintenance of these depot-level reparables in comprehensive contracts. Ownership and oversight of contracts that bundle procurement and maintenance for a depot-level reparable will remain with the respective services, potentially reducing DLA's ability to capture expected efficiencies.

Developing Information Technology Solutions

Officials from the services and DLA identified several challenges about developing information technology solutions to implement the DLR and SS&D recommendations. DLA has existing systems that it uses for DLA-managed items. Likewise, each of the services has its own information technology system to manage its items. Before DLA assumes responsibility for the procurement of depot-level reparables and responsibility for carrying out supply, storage, and distribution functions for DOD, it needs to identify which service systems it must interface with, and then develop solutions to bridge DLA's systems with the service systems. DLA and the services are working together to identify affected business processes and necessary bridges for existing systems to make these business processes and systems work together in the short term, so that DLA can manage its new responsibilities within the implementation time period. When the BRAC Commission estimate was prepared, it included one-time information technology workstation and user support costs for implementing the recommendations. However, the estimate included only almost \$37 million for systems development because the actual system requirements and costs were unknown. The information technology cost estimates in DLA's business plans have increased from these initial BRAC estimates to almost \$188 million, but this figure will continue to evolve because the requirements are not fully developed and associated costs are dependent on those requirements. As it now stands, the business plans' information technology cost estimates are for expanded capabilities on DLA systems, such as the electronic procurement system for the DLR recommendation previously discussed, in order to provide DLA with the technological capability to implement effectively the recommendations.

Managing Human Capital Issues

DLA is currently in the process of working with the services to determine future information technology requirements necessary for the implementation of the recommendations. Until the affected business processes are identified and information technology interface requirements are determined, the projected costs will not be fully identified and questions will arise as to the availability and timing of funding requirements to meet information technology needs. As a result, continued cost increases are likely as implementation of the SS&D and DLR recommendations proceeds.

Officials from the services and DLA also identified challenges regarding the management of human capital issues as the recommendations are implemented. According to depot-level service officials, one critical assumption made in the SS&D and DLR recommendations is that service personnel will transfer on an “as-is, where-is” basis to DLA, which means that employees in transferred positions will perform the same duties they are currently performing at the same location during the same working hours. According to DLA officials, the only difference will be that the employees will then work for DLA instead of one of the services. However, service officials have expressed doubts about the willingness of current experienced personnel to transfer on an “as-is, where-is” basis to DLA. For example, in anticipation of the SS&D transfer, some workers are making decisions to retire or are pursuing positions elsewhere in the depots. Tobyhanna Army Depot officials, for instance, said that since the pending transfer process was announced, six employees who would have been expected to transfer to DLA have either retired or found positions in other areas of the depot. In regards to the DLR recommendation, officials at Robins Air Force Base explained that one of the reasons for potential unwillingness to transfer to DLA is the lower-dollar-value contracting thresholds in DLA as compared to the services. These officials stated that existing service personnel qualified to contract at higher thresholds would likely perceive this change as a demotion.

Service officials also expressed their belief that DLA has a lower pay-grade structure than the services. Moreover, employee union representatives said that depot employees’ future advancement potential may be more limited at DLA, unless they are willing to move to other DLA locations. In regards to the DLR recommendation, we were told by officials at Robins Air Force Base that there is a perception that moving from a multipurpose contracting position in a service to a procurement-only position in DLA would be detrimental to career progression, viewed by contracting officers as harming their chances for promotions when they compete against other contracting officers who are not limited to procurement activities.

Additionally, these officials expressed concern that DLA could eventually transfer the procurement function and its associated personnel to the Inventory Control Point in Richmond, Virginia.

Furthermore, with respect to the SS&D recommendation, when DLA takes over the SS&D function, a 6½ percent efficiency elimination reduction is planned for the existing supply depot support workforce. The services are concerned that with the A-76 competitions, most efficient organization, and other personnel efficiency initiatives that have taken place since the BRAC data were collected and this efficiency assumption was put in place, the number of service SS&D personnel has already been drastically reduced and further reductions could adversely impact operations. Service officials stated that if DLA further reduces service SS&D personnel, then the services may be unable to get the support they need, which may affect readiness.

Due to the numerous human capital challenges confronting DLA, the services are concerned whether DLA will be able to maintain the same level of experience possessed by existing service personnel to carry out the procurement and supply, storage, and distribution functions. Service officials believe that such a lack of experience could adversely affect DLA's ability to provide the same level of support now being provided by the services. As of December 2007, Warner Robins Air Logistics Center is the only site to complete the "as-is, where-is" transfer for either recommendation. According to DLA and Air Force officials, the transfer of 265 supply, storage, and distribution positions to DLA occurred in October 2007. Of these 265 positions transferred, DLA was successful in retaining 240 personnel conducting the functions, resulting in only 25 vacancies—a normal vacancy rate—that has not disrupted maintenance production schedules to date. While the supply, storage, and distribution transfer has been successful at Warner Robins to this point, DLA will continue to be confronted with human capital challenges in the transfers that will occur over the next several years. DLA recognized that human capital issues would be a challenge early in the implementation process, and established the human capital integrated process teams comprised of DLA and service officials that are working to develop solutions to address these issues.

Failing to Fully Realize BRAC
Estimated Savings May
Negatively Affect Budgets

Service officials we spoke with also voiced concerns regarding the potential negative effect on their budgets if the savings estimated by the BRAC Commission are not fully realized. DOD budget guidance directs the closed or realigned components to finance the difference between the start-up funding allocated by DOD and the actual costs of implementing the recommendations. To the extent that savings are not realized and are

Obtaining Timely Funding for Implementation of Recommendations

insufficient to offset this difference, service officials stated that they are concerned about having to make up the difference out of their own budgets. Service officials expressed concern that unrealized BRAC estimated savings would be summarily taken from service budgets, which could have multiple adverse consequences, including threatening readiness levels. For example, appropriations for maintenance and weapon system management may have to be reprogrammed to pay for implementation of the BRAC recommendations. Officials from several of the services stated that there was clearly a departmentwide emphasis on achieving savings and noted that DLA does not have a large budget to offset unrealized savings.

Early in the implementation period process, DLA experienced difficulty obtaining timely funding to begin physical implementation of the SS&D and DLR recommendations. DOD provided about \$13 billion in start-up funds for implementing all 2005 BRAC recommendations. These funds were distributed to DLA and the service components through a program budget decision, which allocated the start-up funding by fiscal year based on the BRAC Commission's estimates of the components' proportional share of one-time implementation costs for all of the BRAC recommendations that affected them.²⁶ The components were directed to finance the difference between the start-up fund amounts and actual implementation costs within the statutory 6-year period. The decision did not specify how the components were to spend the funds or what recommendations should be funded in which years. Because of the joint nature of these two recommendations, DLA as the business manager had to obtain each service's proportional share of their allocation of the start-up funding as well as its own BRAC allocation. As a result, early in the planning phase DLA had to coordinate with each of the services regarding when and how much, if any, of the start-up funding would be provided to begin implementation of these recommendations, according to DLA officials. This required considerable coordination and interaction with the services to align sufficient available funding to coincide with DLA's initial implementation schedule as specified in the business plans. However, this alignment process did not initially occur, resulting in a slippage on the implementation planning dates. For example, according to Army officials, the Army decided not to provide any funding for fiscal years 2006 or 2007, but rather to determine its level of funding commitment for each of these two recommendations during development of its fiscal year 2008 budget.

²⁶Program Budget Decision 717 (Dec. 20, 2005).

During the early planning phase, several DLA officials told us they believed that DOD's method of allocating start-up funds created a climate of uncertainty, requiring considerable coordination and interaction between DLA and the services to devise a funding plan for implementation. Our analysis of the fiscal year 2008 through 2009 president's budget for these two BRAC recommendations shows that this funding challenge may have been somewhat mitigated because the planned funding now budgeted by the services and DLA is reasonably close to the amounts estimated in the business plans. However, these early budget challenges indicate that unless close attention is paid to subsequent budgets when they are developed, successful implementation of these two recommendations may be jeopardized.

DOD and DLA Have Taken Several Actions to Address Some Challenges, but Effectiveness of These Actions Is Unknown

To ensure successful implementation of the SS&D and DLR recommendations, DOD and DLA have taken several actions to address some challenges and mitigate implementation risks, but the effectiveness of these actions is unknown. As we previously reported in October 2007, DLA is developing plans to minimize the risk associated with implementation of the SS&D recommendation.²⁷ While no plan can guarantee the prevention of disruptions, DLA's plans for implementing both the SS&D and DLR recommendations incorporate several features that we believe, if implemented as intended, are likely to lessen the risk associated with these recommendations. These features, some of which are designed to address challenges faced by DLA and the services, include retaining the BRAC governance structure; using a risk-based, time-phased approach; using "as-is, where-is" personnel transfers; using integrated process teams to address challenges and mitigate risks; and developing memoranda of agreement and performance-based agreements.

- Governance structure: A significant action DOD took was to retain the governance structure it used to develop the 2005 BRAC recommendations, as previously discussed. As the implementation planning phase began, DLA expanded this governance structure by creating the Materiel Readiness Project Office within DLA in September 2005 specifically to develop execution processes and manage the implementation planning for several BRAC recommendations. In April 2007, DLA issued an order that transferred the established BRAC governance structure, including the existing Materiel Readiness Project Office, from DLA's planning division to

²⁷ [GAO-08-121R](#).

its Logistics Operations and Readiness division to oversee and manage the implementation phase, with the organizational structure and governance remaining virtually the same as it was during the planning phase. Thus, within DLA, accountability for each recommendation has been established, service representation has been incorporated, and working groups actively assess challenges and develop solutions to mitigate risks.

- Risk-based, time-phased implementation process: DLA has developed a risk-based, time-phased approach to implement the recommendations and mitigate risks. This implementation approach moves from the least complex, lower-risk functions up to the most complex and difficult. Additionally, implementation of both recommendations is to be phased across the services during the implementation period, and within each service implementation will take place sequentially at affected sites. This risk-based, time-phased approach has been approved within the governance structure for both recommendations and is aimed at mitigating risks to readiness by phasing in the recommendations to allow for the focused dedication of resources for individual sites, the capture and incorporation of “lessons learned” as implementation proceeds.
- “As-is, where-is” transfer: The transfer of DLR procurement and SS&D positions is to occur on an “as-is, where-is” basis, which means that employees in transferred positions will perform the same duties at the same location during the same working hours. According to DLA officials, the only difference will be that the employees will then work for DLA instead of one of the services. To the extent that this construct is implemented, there would likely be less potential for disruptions to procurement actions or maintenance production schedules. For example, at Warner Robins Air Logistics Center, 265 positions were transferred to DLA in October 2007. According to DLA and Air Force officials, DLA successfully retained personnel in 240 of these 265 positions, resulting in only 25 vacancies. These officials explained that this is a normal vacancy rate that has not disrupted maintenance production schedules to date.
- Integrated process teams and the plan of action and milestones: DLA is using integrated process teams to address challenges and mitigate risks during the implementation planning phase and actual implementation for both recommendations. The integrated process teams assist in the development of a comprehensive action plan, referred to as the Plan of Action and Milestones, for implementation planning. The plan includes specific and detailed actions that identify each task’s duration, including start and completion dates; percentage completed; organization and personnel assigned; criticality of task; and milestones. Furthermore, the integrated process teams meet regularly to discuss implementation issues,

work through problems and concerns, and identify potential solutions and mitigating actions where possible. The integrated process teams raise unresolved issues to higher levels for resolution. DOD envisions this process continuing throughout the 6-year implementation period.

- Memorandums of agreement and performance-based agreements: To mitigate the risks associated with implementing the SS&D and DLR recommendations, DLA and the services are negotiating memoranda of agreement to establish business rules that set forth the requirements and responsibilities for implementation planning and activities. DLA and the services also plan to negotiate performance-based agreements²⁸ that will establish the responsibilities, metrics to measure performance, costs, and business rules that should help minimize the risk of disrupting depot maintenance. For example, in November 2007 DLA and the Air Force reached agreement on five metrics to be tracked to assess DLA's performance in providing the supply, storage, and distribution functions at the Air Force's maintenance facilities.

As discussed above, many challenges will need to be worked out during implementation, but DLA has taken several initial actions which we believe are positive steps that can enable DLA to address these challenges by working through concerns and identifying potential solutions and mitigating actions where possible. Although the effectiveness of these actions will be unknown until implementation progresses further and problems arise and are addressed, service officials we spoke with expressed satisfaction with the governance structure and the implementation planning actions that have taken place to date. According to DOD officials, the differing cultures of the services and DLA as well as the inertia of practices that have existed for years make transitions to newly designed business processes inherently difficult. Thus, as implementation progresses further and more actions are undertaken, the potential for disruptions to the services' industrial operations and possible degradations in readiness will continue to exist. Because we believe that DLA's current plans incorporate several features that, if implemented as intended, are likely to lessen the risk associated with these recommendations, we are not making any specific recommendations at this time regarding further actions that may be needed to mitigate potential disruptions. Nonetheless, we believe continued collaboration and monitoring of the execution of BRAC actions as implementation proceeds

²⁸Performance-based agreements are defined as the negotiated agreements between the major stakeholders that formally document the performance and support expectations and resources to achieve the desired outcome.

are essential to enable DLA to take corrective actions as necessary to prevent adverse effects.

Conclusions

Accurately accounting for savings associated with the BRAC recommendations provides decision makers with credible information for assessing the financial performance of the implementation efforts and supports decision making regarding the formulation of future budgets and associated resources needed to successfully implement the recommendations. We believe that accurately accounting for savings on a timely basis requires that only savings directly attributable to BRAC actions be considered as BRAC savings and that methodologies be implemented for periodically tracking and updating actual savings over time. Without this accounting, decision makers may be unable to make informed decisions regarding financial performance or future budgets. In this regard, we believe that DLA's inclusion of expected savings in its business plans that are not directly attributable to BRAC is inappropriate and has the effect of overstating the savings that the department expects from implementing these BRAC recommendations. Further, given the potential for significant variability in the savings to be achieved from implementing these recommendations, we believe it is essential that DLA implement methodologies to periodically monitor and update savings from these recommendations throughout the implementation period. We are encouraged that DLA has taken steps to partially complete the development of such methodologies. Unless these methodologies are developed, approved, and implemented, the savings attributable to BRAC cannot be accurately monitored as implementation proceeds.

To ensure that implementation of all required BRAC actions is completed by the end of fiscal year 2011, adequate funding must be secured not only from within DLA but also from the military services. Early in the implementation process, funding became an issue as some difficulties arose in obtaining sufficient funding from the services to meet implementation milestones. This required considerable coordination and interaction between DLA and the services to align sufficient start-up and implementation funds with DLA's planned implementation schedule. While funding issues are now somewhat mitigated, we believe that the early budget challenges, coupled with increased funding needs in the latter portion of the implementation period, indicate that unless close attention is paid to subsequent budgets when they are finalized, success with the full implementation of these two recommendations within the milestone schedules may be jeopardized.

Recommendations for Executive Action

To provide a more accurate projection of savings associated with implementing the DLA-managed BRAC recommendations, we recommend that the Secretary of Defense direct the Director of the Defense Logistics Agency to revise its business plans to exclude all expected savings that are not the direct result of BRAC actions. Such revisions should exclude, for example, the \$172 million in potential savings for implementing the SS&D recommendation and the \$71 million in potential savings for implementing the DLR recommendation that resulted from pre-BRAC actions associated with inventory reduction initiatives already planned by the services that would have occurred regardless of BRAC.

To provide greater accountability and visibility over the financial performance of the DLA BRAC recommendations and to provide a basis for preventing potential premature budget reductions, we recommend that the Secretary of Defense direct the Director of the Defense Logistics Agency to implement methodologies for periodically monitoring and updating net savings for the SS&D and DLR recommendations throughout the implementation period. Such methodologies, at a minimum, should include:

- clear metrics for measuring the magnitude of actual costs and savings,
- a comparison of the actual costs and savings to the prior estimates to coincide with the required semiannual business plan updates, and
- explanations for actual cost and savings variances from estimates presented in the business plans.

To ensure adequate funding for successful implementation of the recommendations within the BRAC implementation time frame, we recommend that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force, the Commandant of the Marine Corps, and the Director of DLA to ensure that necessary funding to meet implementation milestones is reflected in all respective service and DLA budget submissions for the remainder of the implementation period ending in fiscal year 2011.

Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD concurred with our second and third recommendations but did not concur with our first recommendation to have the Defense Logistics Agency revise its business plans to exclude all expected savings that are not the direct result of BRAC actions. We noted that such revisions should exclude, for example, the \$172 million in potential savings for implementing the SS&D recommendation and the \$71 million in potential savings for implementing

the DLR recommendation that resulted from pre-BRAC actions associated with inventory reduction initiatives already planned by the services that would have occurred regardless of BRAC. In its response, DOD stated that while these particular potential savings were not directly the result of BRAC actions, the estimated savings were enabled by BRAC actions and should be attributable to the recommendations. According to DOD, “enabled savings are savings initiatives that were enhanced in some way by the BRAC implementation actions (e.g. increased scope, more aggressively pursued or moved in new directions).” We disagree and continue to believe that the \$243 million in expected savings resulting from the services’ inventory reduction initiatives should not be counted as BRAC savings. As we stated in this report, while these initiatives are inventory related and may produce savings, we believe that they are not the direct result of BRAC actions and therefore are not BRAC savings. These particular savings initiatives respond either to a DOD supply regulation²⁹ to identify and dispose of obsolete inventory or were initiated prior to November 2005 when the BRAC recommendations became effective.³⁰ Because we believe that the expected savings associated with these initiatives are not the result of BRAC actions and would have occurred regardless of BRAC, we do not believe that these savings should be counted as BRAC savings.

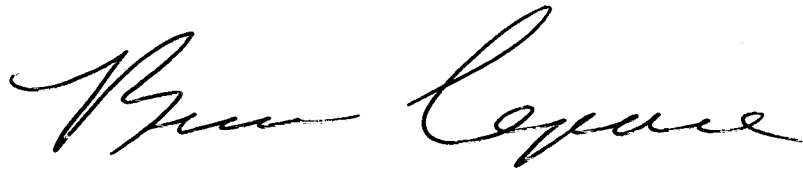
DOD’s written comments are reprinted in their entirety in appendix IV. DOD also provided technical comments, which we have incorporated into this report as appropriate.

We are sending copies of this report to other congressional committees and members; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on GAO’s Web site at <http://www.gao.gov>.

²⁹DOD Supply Chain Materiel Management Regulation, DOD 4140.1-R, Section C2.8 Materiel Retention (May 23, 2003).

³⁰Of the \$243 million, almost \$190 million in savings was associated with several military services’ initiatives that implemented a DOD supply regulation that is unrelated to BRAC to identify and dispose of obsolete or unneeded inventory. Another \$53 million in savings during the BRAC implementation period was associated with an Air Force inventory reduction initiative that was initiated prior to November 9, 2005, when the BRAC recommendations became effective.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff members who made key contributions to this report are listed in appendix V.

A handwritten signature in black ink, reading "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore
Director, Defense Capabilities and Management

List of Congressional Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Kay Bailey Hutchison
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Chet Edwards
Chairman
The Honorable Zach Wamp
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs and Related Agencies
Committee on Appropriations
House of Representatives

Appendix I: Text of the BRAC Commission's Supply, Storage, and Distribution Management Reconfiguration

Realign Defense Supply Center Columbus, OH, by disestablishing the Defense Distribution Depot Columbus, OH. Relocate the storage and distribution functions and associated inventories to the Defense Distribution Depot Susquehanna, PA, hereby designated the Susquehanna Strategic Distribution Platform.

Realign Tobyhanna Army Depot, PA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Tobyhanna, PA, with all other supply, storage, and distribution functions and inventories that exist at Tobyhanna Army Depot to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Tobyhanna Army Depot, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Susquehanna Strategic Distribution Platform.

Realign Naval Station Norfolk, VA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Norfolk, VA, with all other supply, storage, and distribution functions and inventories that exist at Norfolk Naval Base and at Norfolk Naval Shipyard to support shipyard operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Norfolk Naval Shipyard operations, maintenance and production, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Susquehanna Strategic Distribution Platform.

Realign Defense Supply Center Richmond, VA, by relocating the storage and distribution functions and associated inventories of the Defense Distribution Depot Richmond, VA, to the Susquehanna Strategic Distribution Platform. Retain the minimum necessary storage and distribution functions and associated inventories at Defense Distribution Depot Richmond, VA, to serve as a wholesale Forward Distribution Point.

Realign Marine Corps Air Station, Cherry Point, NC, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Cherry Point, NC, with all other supply, storage, and distribution functions and inventories that exist at Naval Aviation Depot Cherry Point, NC, to support depot operations, maintenance and production. Retain the minimum necessary supply, storage, and distribution functions and inventories

required to support Naval Air Depot Cherry Point, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot Warner Robins, GA, hereby designated the Warner Robins Strategic Distribution Platform.

Realign Robins Air Force Base, GA, by consolidating the supply, storage, and distribution functions and associated inventories supporting depot operations, maintenance, and production at the Warner Robins Air Logistics Center with the supply, storage, and distribution functions at the Warner Robins Strategic Distribution Platform.

Realign Marine Corps Logistics Base, Albany, GA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Albany, GA, with all other supply, storage, and distribution functions and inventories that exist at the Maintenance Center Albany, GA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support the Maintenance Center Albany, GA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Realign Naval Air Station Jacksonville, FL, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Jacksonville, FL, with all other supply, storage, and distribution functions and inventories that exist at the Naval Aviation Depot, Jacksonville, FL, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support the Naval Aviation Depot, Jacksonville, FL, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Realign Anniston Army Depot, AL, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Anniston, AL, with all other supply, storage, and distribution functions and inventories that exist at the Anniston Army Depot, AL, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Anniston Army Depot, AL, and to

serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Realign Corpus Christi Army Depot, TX, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Corpus Christi, TX, with all other supply, storage, and distribution functions and inventories that exist at Corpus Christi Army Depot, TX, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Corpus Christi Army Depot, TX, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot Oklahoma City, hereby designated the Oklahoma City Strategic Distribution Platform.

Realign Tinker AFB, OK, by consolidating the supply, storage, and distribution functions and associated inventories supporting depot operations, maintenance, and production at the Air Logistics Center, Oklahoma City, OK, with the supply, storage, and distribution functions and inventories at the Oklahoma City Strategic Distribution Platform.

Realign Hill AFB, UT, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Hill, UT, with all other supply, storage, and distribution functions and inventories that exist at the Ogden Air Logistics Center, UT, to support depot operations, maintenance, and production. Retain the necessary supply, storage, and distribution functions and inventories required to support the Ogden Air Logistics Center, UT, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot, San Joaquin, CA, hereby designated the San Joaquin Strategic Distribution Platform.

Realign Naval Station Bremerton, WA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Puget Sound, WA, with all other supply, storage and distribution functions and inventories that exist at Puget Sound Naval Shipyard, WA, to support shipyard operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Puget Sound Naval Shipyard, WA, and to serve as a wholesale Forward Distribution

Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Realign Naval Station, San Diego, CA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, San Diego, CA, with all other supply, storage, and distribution functions and inventories that exist at Naval Aviation Depot, North Island, CA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Naval Aviation Depot, North Island, CA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Realign Marine Corps Logistics Base, Barstow, CA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Barstow, CA, with all other supply, storage, and distribution functions and inventories that exist at the Maintenance Center Barstow, CA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories at Defense Distribution Depot Barstow, CA, that are required to support the Maintenance Center Barstow, CA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Source: Extract from the 2005 Defense Base Closure and Realignment Commission Report to the President, Volume 2, Appendix Q (Commission's Final Recommendations).

Appendix II: Text of the BRAC Commission's Depot-Level Reparable Procurement Management Consolidation Recommendation

Realign Soldier Systems Center, Natick, MA, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Philadelphia, PA, and reestablishing them as Defense Logistics Agency Inventory Control Point functions and by disestablishing the procurement management and related support functions for Depot Level Reparables and designating them as Defense Supply Center Philadelphia PA, Inventory Control Point functions.

Realign Detroit Arsenal, MI, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and reestablishing them as Defense Logistics Agency Inventory Control Point functions and by disestablishing the procurement management and related support functions for Depot Level Reparables and designating them as Defense Supply Center Columbus, OH, Inventory Control Point functions.

Realign Rock Island Arsenal, IL, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; relocate the procurement management and related support functions for Depot Level Reparables to Detroit Arsenal, MI, and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the remaining integrated materiel management, user, and related support functions to Detroit Arsenal, MI.

Realign Ft. Huachuca, AZ, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and designate them as Defense Logistics Agency Inventory Control Point functions; relocate the

procurement management and related support functions for Depot Level Repairables to Aberdeen proving Ground, MD, and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the remaining integrated materiel management, user, and related support functions to Aberdeen Proving Ground, MD.

Realign Naval Support Activity Mechanicsburg, PA, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items, except those Navy items associated with Nuclear Propulsion Support, Level 1/Subsafe and Deep Submergence System Program (DSSP) Management, Strategic Weapon Systems Management, Design Unstable/Preproduction Test, Special Waivers, Major End Items and Fabricated or Reclaimed items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; disestablish the procurement management and related support functions for Depot Level Repairables and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for Depot Level Repairables to the Defense Logistics Agency, Fort Belvoir, VA.

Realign Marine Corps Base, Albany, GA, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for any residual Consumable Items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; disestablish the procurement management and related support functions for Depot Level Repairables and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight

of procurement management and related support functions for Depot Level Reparables to the Defense Logistics Agency, Fort Belvoir, VA.

Realign Naval Support Activity Philadelphia, PA, Tinker Air Force Base, OK, Hill Air Force Base, UT, and Robins Air Force Base, GA, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items, except those Navy items associated with Design Unstable/Preproduction Test, Special Waivers, and Major End Items to Defense Supply Center Richmond, VA, and reestablishing them as Defense Logistics Agency Inventory Control Point functions, and by disestablishing the procurement management and related support functions for Depot Level Reparables and designating them as Defense Supply Center Richmond, VA, Inventory Control Point functions.

Realign Redstone Arsenal, AL, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Aviation Consumable Items to Defense Supply Center Richmond, VA, and reestablish them as Defense Logistics Agency Aviation Inventory Control Point functions; disestablish the procurement management and related support functions for Aviation Depot Level Reparables and designate them as Defense Supply Center Richmond, VA, Aviation Inventory Control Point functions; relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Missile Consumable Items to Defense Supply Center Columbus, OH; reestablish them as Defense Logistics Agency Missile Inventory Control Point functions; disestablish the procurement management and related support functions for Missile Depot Level Reparables and designate them as Defense Supply Center Columbus, OH, Missile Inventory Control Point functions; and realign a portion of the remaining integrated materiel management, user, and related support functions necessary to oversee the Inventory Control Point activities at Aberdeen Proving Ground, MD, Detroit Arsenal, MI, Soldier System Center, Natick, MA, and Redstone Arsenal, AL, to Headquarters Army Materiel Command (AMC).

Realign Wright-Patterson Air Force Base, OH, by relocating the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for Depot Level Repairables to the Defense Logistics Agency, Fort Belvoir, VA.

Realign Fort Belvoir, VA, by assigning the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for Depot Level Repairables to the Defense Logistics Agency, Fort Belvoir, VA.

Source: Extract from the 2005 Defense Base Closure and Realignment Commission Report to the President, Volume 2, Appendix Q (Commission's Final Recommendations).

Appendix III: Scope and Methodology

We performed our work and obtained information from the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics), Arlington, Virginia; Office of the Deputy Under Secretary of Defense (Installations and Environment), Arlington, Virginia; the Office of the Under Secretary of Defense Comptroller, Arlington, Virginia; Defense Logistics Agency (DLA) headquarters, Fort Belvoir, Virginia; DLA's Defense Distribution Center, Susquehanna, Pennsylvania; Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio; Naval Sea Systems Command, Washington Navy Yard, Washington, D.C.; United States Army Materiel Command, Fort Belvoir, Virginia; Corpus Christi Army Depot, Corpus Christi, Texas; Norfolk Naval Shipyard, Portsmouth, Virginia; Naval Supply Systems Command, Mechanicsburg, Pennsylvania; and Warner Robins Air Logistics Center, Warner Robins, Georgia. We further relied on our related work and resulting report issued in October 2007 regarding key specific implementation actions associated with the implementation of the supply, storage, and distribution (SS&D) recommendation.¹ Additional locations visited during this prior review included Anniston Army Depot, Anniston, Alabama; Tobyhanna Army Depot, Tobyhanna, Pennsylvania; the Naval Aviation Depot, Cherry Point, North Carolina; and the Marine Corps Maintenance Center Albany, Albany, Georgia.

To determine the extent to which DLA's estimated costs and savings for the two DLA-managed recommendations have changed from those presented in the 2005 base realignment and closure (BRAC) Commission's September 2005 report, we examined supporting documents used to generate the Commission's estimates and DLA's business plans for these two recommendations. The Commission's estimates represent the closest estimates that were available at the time the BRAC recommendations were finalized. In making our comparisons, we used DLA's September 28, 2007, draft business plan, which is awaiting approval from the Office of the Secretary of Defense, for the SS&D recommendation and its updated September 28, 2007, business plan for the depot-level reparable (DLR) recommendation. The September 2007 business plans were the most current plans available at the time of our review and provide for more current estimates and associated variances with BRAC Commission estimates than those provided in our December 2007 report on overall BRAC costs and savings.² In that report we used fiscal year 2008

¹[GAO-08-121R](#).

²[GAO-08-159](#).

Department of Defense (DOD) budget data for comparative purposes. We determined the reasonableness of the estimates presented in the business plans by reviewing and analyzing source data and methodology used to generate estimates of costs and savings. We discussed the reasons for the variances with DLA, service, and contractor officials. Based on the revised estimates as presented in the business plans, we also recalculated the expected 20-year savings—also known as the 20-year net present value—for these recommendations, using the same methodology used by the BRAC Commission in its calculation of the estimate. We also generally reported expected cost and savings in current dollars and not constant dollars except where noted. In addition, we calculated how many years it would take for the expected BRAC savings to recoup the expected initial investment costs to implement the recommendations, comparing the fiscal years, or break-even points, when cumulative savings would exceed cumulative costs. We did this to be consistent with the way DOD had reported its break-even points for past rounds, which is a methodology we also replicated in our prior reports on BRAC implementation.

To assess the reliability of the data and the validity of underlying assumptions used to generate estimates of costs and savings, we reviewed pertinent Under Secretary of Defense (Acquisition, Technology, and Logistics), Supply and Storage Joint Cross-Service Group, and DLA guidance for reporting data and interviewed officials at the locations named above as well as BRAC representatives from each of the military services knowledgeable about the data and the assumptions underlying estimated costs and savings. Based on this, we believe that the data used were sufficiently reliable for the purposes of this report. It should be noted that the business plans are considered “living” documents and the data presented therein represent a point in time as plans are subject to change as implementation proceeds.

To determine the progress made in implementing these recommendations and the challenges DLA faces, we analyzed pertinent documents and reports and interviewed officials from the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics); DLA headquarters and its Defense Distribution Center in Susquehanna, Pennsylvania; and Army, Navy, Air Force, and Marine Corps officials responsible for developing the planning documents and implementing the recommendations. We also discussed challenges with service officials at and observed the supply and support operations at Corpus Christi Army Depot, Corpus Christi, Texas; Norfolk Naval Shipyard, Portsmouth, Virginia; and Warner Robins Air Logistics Center, Warner Robins, Georgia. In addition to these sites, we also visited Anniston Army Depot, Anniston Alabama; Tobyhanna Army

Depot, Tobyhanna, Pennsylvania; the Naval Aviation Depot, Cherry Point, North Carolina; and the Marine Corps Maintenance Center Albany, Albany, Georgia to observe supply and support operations and discuss their concerns regarding implementation issues. We further discussed with DLA officials ongoing or planned actions to mitigate the risks associated with these challenges.

We conducted this performance audit from January 2006 through December 2007 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix IV: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

FEB 26 2008

Mr. Brian Lapore
Director, Defense Capabilities and Management
U. S. Government Accountability Office
441 G Street, N. W.
Washington, DC 20548

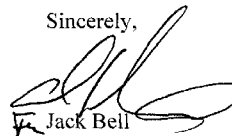
Dear Mr. Lapore:

This is the Department of Defense (DOD) response to the GAO draft report, "MILITARY BASE REALIGNMENTS AND CLOSURES: Higher Costs and Lower Savings Projected for Implementing Two Key Supply-Related BRAC Recommendations," dated 18 January, 2008 (GAO Code 350791/GAO-08-315).

The DoD non-concurs with the draft report's recommendation that the Secretary of Defense direct the Director of the Defense Logistics Agency to revise its business plans to exclude all expected savings that are not the direct result of BRAC actions. Your report cites the \$172 million in potential savings for implementing the supply, storage, and distribution (SS&D) recommendation and the \$71 million in potential savings for implementing the depot level repairable (DLR) recommendation as pre-BRAC actions associated with inventory reduction initiatives already planned by the Services that would have occurred regardless of BRAC. The Department's views the \$243M in potential savings, while not directly the result of BRAC actions, were enabled by BRAC actions and therefore should be attributable to the recommendation. Additional information to support our position is provided in the attachment. The Department concurs with the two other recommendations and our comments are attached.

The Department appreciates the opportunity to comment on the draft report. Technical comments were provided separately.

Sincerely,



Jack Bell

Enclosure:
As stated



GAO DRAFT REPORT – DATED JANUARY 18, 2008
GAO CODE 350791/GAO-08-315

**“MILITARY BASE REALIGNMENTS AND CLOSURES: Higher Costs and
Lower Savings Projected for Implementing Two Key Supply-Related BRAC
Recommendations”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommends that the Secretary of Defense direct the Director of the Defense Logistics Agency to revise its business plans to exclude all expected savings that are not the direct result of BRAC actions. Such revisions should exclude, for example, the \$172 million in potential savings for implementing the supply, storage, and distribution (SS&D) recommendation and the \$71 million in potential savings for implementing the depot level reparable (DLR) recommendation that resulted from pre-BRAC actions associated with inventory reduction initiatives already planned by the Services that would have occurred regardless of BRAC.

DOD RESPONSE: Non-concur. While not directly the result of Base Realignment and Closures (BRAC) actions, the \$243M in potential savings were enabled by BRAC actions. Enabled savings are savings initiatives that were enhanced in some way by the BRAC implementation actions (e.g. increased scope, more aggressively pursued or moved in new directions). Defense Logistics Agency (DLA) attributes \$196M to holding cost avoidance due to Army and Marine Corp condemnations, Air Force (AF) implementation of Customer Oriented Leveling Technique (COLT) and Strategic Materiel Sourcing (SMS); additional savings of \$23.6 M occurred due to AF COLT and SMS inventory reduction initiatives; \$23.8M occurred due to changes in SMS pricing. The basis of our non-concur is centered on DLA and the Services’ actions taken to implement two specific BRAC recommendations, 177 and 176.

In recommendation 177, DLA pledged to evacuate more than 15M gross square feet of warehouse space. As a result of this pledge, DLA asked the Services to consider eliminating dormant stock (i.e. stock with no demands for more than 2 years). The holding cost avoidance savings claimed were from stock voluntarily eliminated as a result of this review.

COLT is a program designed to minimize stock held in support of AF depot maintenance activities. COLT achieves the same results intended by recommendation 177 which calls for DLA to collapse the wholesale and retail stock levels when it assume ownership of the depot retail supply accounts. As a result of this initiative the AF was exempted from participation in DLA’s retail supply inventory reduction program.

Recommendation 176 consolidates procurement authority into one DOD Component (DLA) enabling the department to increase the rate that items are added to long term indefinite-delivery indefinite-quantity (IDIQ) contracts. SMS is a DLA program that measures the savings accrued by DLA when it adds new items to long term IDIQ contracts. Savings come from reduced stock levels resulting from shorter lead-times and moving items from stocked to direct vendor delivery status. Implementation of 176 enhances the savings generated by the SMS program

RECOMMENDATION 2: The GAO recommends that the Secretary of Defense direct the Director of the Defense Logistics Agency to implement methodologies for periodically monitoring and updating net savings for the supply, storage, and distribution (SS&D) and depot level reparable (DLR) recommendations throughout the implementation period. Such methodologies, at a minimum, should include:

- clear metrics for measuring the magnitude of actual costs and savings;
- a comparison of the actual costs and savings to the prior estimates to coincide with the required semi-annual business plan updates, and
- explanations for actual cost and savings variances from estimates presented in the business plans.

DOD RESPONSE: Concur

RECOMMENDATION 3: The GAO recommends that the Secretary of Defense direct the Secretaries of the Army, Navy, and Air Force, the Commandant of the Marine Corps, and the Director of the Defense Logistics Agency (DLA) to ensure that necessary funding to meet implementation milestones is reflected in all respective Service and DLA budget submission for the remainder of the implementation period ending in fiscal year 2011.

DOD RESPONSE: Concur

Appendix V: GAO Contact and Staff Acknowledgments

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Acknowledgments

In addition to the individual named above, Barry Holman, Director (retired); James R. Reifsnyder, Assistant Director; John R. Beauchamp, Renee S. Brown, John C. Bumgarner, Brian P. Mateja, Julia Matta, Charles W. Perdue, Dudley C. Roache, Jr. (retired), Virginia M. Saavedra (retired), and John Wren made key contributions to this report.

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